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UNITED STATES COPYRIGHT ROYALTY JUDGES

The Library	of Congress
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IN THE MATTER OF:)
)
DETERMINATION OF ROYALTY) Docket No.
RATES AND TERMS FOR) 16-CRB-0001-SR/PSSR
TRANSMISSION OF SOUND) (2018-2022)
RECORDINGS BY SATELLITE)
RADIO AND "PREEXISTING")
SUBSCRIPTION SERVICES)
(SDARS III))
	-X

OPEN SESSIONS

Pages: 4504 through 4772 (with excerpts)

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13	X
14	BEFORE: THE HONORABLE SUZANNE BARNETT
15	THE HONORABLE JESSE M. FEDER
16	THE HONORABLE DAVID R. STRICKLER
17	
18	Library of Congress
19	Madison Building
20	101 Independence Avenue, S.E.
21	Washington, D.C.
22	May 18, 2017
23	9:24 a.m.
24	VOLUME XVIII
25	Reported by: Karen Brynteson, RMR, CRR, FAPR

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2	On behalf of SoundExchange, The American Federation
3	of Musicians of the United States and Canada, Screen
4	Actors Guild and American Federation of Television
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- PROCEEDINGS 1 (9:24 a.m.) 2 Good morning. Please be JUDGE BARNETT: 3 The vagaries of Washington, D.C. commuter 4 seated. traffic are just that, a vagary. 5 Could you please stand, sir, and raise 6 your right hand. Whereupon --8 DAVID DEL BECCARO, 9 having been first duly sworn, was examined and 10 testified as follows: 11 12 JUDGE BARNETT: Please be seated. Mr. Fakler? 13 MR. FAKLER: Thank you, Your Honor. 14 Music Choice calls David Del Beccaro. 15 DIRECT EXAMINATION 16 BY MR. FAKLER: 17 Good morning. 18 Q. 19 Α. Good morning. Could you state your name for the record, 20 Q. please. 21
- 22 A. David Del Beccaro.
- Q. And, Mr. Del Beccaro, where are you
- 24 employed?
- 25 A. Music Choice.

- 1 Q. And what is your job title?
- 2 A. I'm the chief executive officer and
- 3 president.
- 4 Q. If I could ask you to please turn to the
- 5 document in that binder in front of you at tab
- 6 Exhibit 55.
- 7 A. Okay.
- 8 Q. Do you recognize this document?
- 9 A. Yes, I do.
- 10 Q. And what is it?
- 11 A. It's my written testimony for this
- 12 proceeding.
- Q. And if you turn to the final page in that
- 14 exhibit.
- 15 A. Yes.
- 16 Q. Is that your signature?
- 17 A. Yes, it is.
- 18 MR. FAKLER: Your Honors, at this time, I
- 19 would like to offer into evidence Trial Exhibit 55.
- 20 MR. FREEDMAN: No objection, Your Honor.
- JUDGE BARNETT: 55 is admitted.
- 22 (Joint Exhibit Number 55 was marked and
- 23 received into evidence.)
- 24 BY MR. FAKLER:
- Q. And, if you could turn to the next

- 1 document in the binder, Exhibit 57.
- 2 A. Yes.
- Q. Can you tell us what this is.
- 4 A. My rebuttal testimony for this
- 5 proceeding.
- Q. And if you turn to the very last page,
- 7 again, can you verify whether that's your signature.
- 8 A. Yes, it is.
- 9 MR. FAKLER: Your Honors, I'd like to
- 10 offer into evidence Trial Exhibit 57.
- MR. FREEDMAN: No objection, Your Honor.
- 12 JUDGE BARNETT: 57 is admitted.
- 13 (Joint Exhibit Number 57 was marked and
- 14 received into evidence.)
- 15 BY MR. FAKLER:
- 16 Q. Mr. Del Beccaro, in preparing for your
- 17 testimony today, did you notice any minor errors in
- 18 the written rebuttal testimony that you'd like to
- 19 correct?
- 20 A. Yes. Two errors. At one point, I --
- 21 Q. Is this page 18?
- 22 A. Sorry, I'll have to look that up.
- 23 O. That's just so we're all clear exactly
- 24 what it is.
- A. Sorry. I need to be in tab 57, right?

- 1 Q. Right.
- 2 A. Yes, so in tab 18, there are two
- 3 mistakes, actually. I noted four cable operators
- 4 when, in fact, one had already bought the other, and
- 5 so there are really only three, Comcast, Time
- 6 Warner, and Cox. Continental had been purchased by
- 7 Comcast.
- 8 I also rounded up, saying that the MVPD
- 9 partners owned over 50 percent of the company, when
- 10 they have never owned over 50 percent. They have at
- 11 their peak owned slightly less than 50 percent.
- 12 Q. Thank you. So did you have any role in
- 13 founding Music Choice?
- 14 A. Yes. I --
- 15 Q. Could you tell us how you started the
- 16 business?
- 17 A. I started working on Music Choice in
- 18 January of 1987 as -- at the time, I was employed at
- 19 General Instrument, and we were creating at General
- 20 Instrument the high-definition television standard,
- 21 which was adopted by the country. And I worked in a
- 22 business development group, and we thought it would
- 23 -- it would be interesting to see what we could do
- 24 with digital technology as relates to the radio
- 25 industry.

- 1 Q. And so what process did you go through to
- 2 develop the idea and then the company?
- A. Well, we did everything from consumer
- 4 research to technology development. We -- we
- 5 realized that we could transmit digital audio
- 6 signals over cable systems. And so we had to do two
- 7 basic things.
- 8 One, figure out a technology that could
- 9 be easily adopted by cable operators and affordably
- 10 by consumers, and then, secondly, find out if
- 11 consumers were interested. This was -- January of
- 12 '87 was before the overwhelming majority of people
- 13 had heard of a CD. So this was very early on. In
- 14 fact, we were the first company to broadcast any
- 15 kind of a digital signal in -- in the entire world.
- 16 We started out doing consumer research,
- 17 what would people be interested in, did they want
- 18 higher-quality radio, and, interestingly enough,
- 19 found out that at that time only -- most of America
- 20 was exposed to very little music. In fact,
- 21 85 percent of radio stations in the United States
- 22 were in five formats.
- 23 And so most of America hadn't heard most
- 24 music. And -- and the first thing we learned in our
- 25 research is what they wanted wasn't really

- 1 high-quality radio; they wanted what radio didn't
- 2 have, all kinds of music formats that most of the
- 3 country was not able to get exposure to.
- 4 And so that's what we set out to do.
- 5 O. And just to be clear, were there any
- 6 other digital music services at this time?
- 7 A. Not in January of '87. By the time we
- 8 launched the service, we had a couple of other
- 9 competitors come into the market.
- 10 Q. Was all of the technology in place that
- 11 you needed to launch this service?
- 12 A. No, none of it was. It took us millions
- 13 of dollars and almost three years to develop the
- 14 technology.
- 15 Q. And did you have any personal role in
- 16 helping develop that technology?
- 17 A. Yes. I not only ran business
- 18 development, but the engineering group that oversaw
- 19 the development.
- 20 Q. Could you generally describe Music
- 21 Choice's residential audio service?
- 22 A. Yes. We provide 50 digital music
- 23 channels that are commercial free, non-stop music of
- 24 various formats throughout the United States. We
- 25 are available in just under 50 million homes at

- 1 present. And we have roughly 47 million people who
- 2 listen to our service weekly.
- Q. And when you say 50 channels, that's 50
- 4 channels on the television?
- 5 A. Yes.
- 6 Q. Do you offer any additional channels?
- 7 A. We do offer 25 additional channels
- 8 on-line to those same customers, actually a small
- 9 subset of those customers. If you are a television
- 10 customer, like all television services, you are able
- 11 through your subscription to get access to the
- 12 product on-line.
- 13 And like all television providers,
- 14 there's -- there are additional -- there's
- 15 additional content on-line to try to get people to
- 16 -- o use the service on-line.
- 17 Q. We'll talk a little bit more about that
- 18 service later, but at the time that you launched
- 19 Music Choice nationally, was the company legally
- 20 required to pay the record companies any kind of
- 21 royalties?
- A. No, we were not.
- O. And at the time that Music Choice
- 24 developed and launched its business, did you think
- 25 it would ever have to pay a performance right to the

- 1 record companies?
- 2 A. No, we did not.
- Q. Did terrestrial radio have to pay
- 4 performance royalties?
- 5 A. No, which is why we were confident we
- 6 didn't have to.
- 7 Q. When did the law change to require you to
- 8 pay those performance royalties?
- 9 A. In 1995.
- 10 Q. And at that time, did Congress require
- 11 terrestrial radio to pay these royalties?
- 12 A. No. They -- they were exempted.
- 13 Q. And how many digital music services
- 14 subject to this performance royalty were operating
- 15 at that time in '95?
- 16 A. Three.
- 17 Q. Who were they?
- 18 A. Muzak and DMX and Music Choice.
- 19 Q. And when Music Choice originally
- 20 launched, it had a different name, didn't it?
- 21 A. Yes, it was called Digital Cable Radio.
- 22 O. But the service was offered as Music
- 23 Choice?
- A. No, not until the mid-'90s.
- Q. Mid-'90s is when you changed over to

- 1 Music Choice?
- 2 A. Yes.
- Q. Now, in 1995 when this royalty obligation
- 4 was put in place by Congress, did they also create a
- 5 statutory license?
- A. I'm not sure if it was in '95 or when the
- 7 Copyright Act was passed in -- in '98.
- 8 Q. Well, the license, the statutory license
- 9 -- you're aware -- are you aware that Music Choice
- 10 is -- has always been eligible for a statutory
- 11 license --
- 12 A. Yes.
- 13 Q. -- once there was a royalty due?
- 14 A. Yes.
- 15 Q. And do you know how that royalty rate is
- 16 set, what sort of standard is used to determine the
- 17 rates?
- 18 A. It's a policy standard based on four
- 19 factors.
- 20 Q. And you're generally familiar with those
- 21 policy factors --
- 22 A. Yes.
- 23 Q. -- having lived with them for this many
- 24 years?
- 25 A. Yes.

- 1 Q. Now, later on, was that rate standard
- 2 changed for some services?
- 3 A. Yes, but not for us.
- 4 Q. And have the record companies, since that
- 5 time -- when you say "not for us," how did that
- 6 work? In other words, you're talking about in 1998
- 7 when the standard changed?
- 8 A. Yes. The standard changed for others but
- 9 not for us, but even since then, the record -- the
- 10 music companies have continuously lobbied Congress
- 11 to change the policy, and -- and Congress has not
- 12 agreed to do so.
- 13 Q. Has Music Choice had to be involved in
- 14 any of that process?
- 15 A. Yes. We have had to talk to people in
- 16 Congress to present our side of the story. And so
- 17 far they have not changed.
- 18 Q. Now, in the development of Music Choice's
- 19 history and ownership, did there come a time when
- 20 any record companies invested in Music Choice?
- 21 A. Yes, in 1993 and 1994.
- Q. And which companies were those?
- 23 A. Warner Music and Sony Music in 1993, and
- 24 EMI Music in 1994.
- Q. Now, did they invest directly or through

- 1 affiliates or --
- 2 A. Every company that has invested in Music
- 3 Choice has directed through an affiliate. That's
- 4 common practice for corporate investments.
- 5 Q. But were any record company executives
- 6 actually involved in that investment process?
- 7 A. Yes, record company executives were
- 8 directly involved and met with me personally dozens
- 9 of times and negotiated directly with me.
- 10 Q. And how much of the sound recording
- 11 market at that time did those record companies
- 12 control?
- 13 A. Approximately two-thirds.
- 14 O. And what did Music Choice have to -- to
- 15 do to secure those investments?
- 16 A. Well, one of the things we did, a major
- 17 concession we made was to give them a copyright
- 18 license fee, which the radio industry had refused to
- 19 give.
- Q. And -- and, again, that was before at
- 21 that point there was any legal performance royalty
- 22 for sound recordings, right?
- 23 A. That is correct.
- Q. So why did the record company investors
- 25 ask for this?

- 1 A. They wanted to set the precedent that --
- 2 that they should and deserved and are entitled to a
- 3 -- a copyright fee by radio broadcasters.
- 4 Q. And why did Music Choice agree to it?
- 5 A. Well, most fundamentally, we needed the
- 6 money. We needed the capital. We had been
- 7 operating for a number of years and -- and were not
- 8 close to profitable yet. And we also wanted the
- 9 support of the music industry in the venture.
- 10 Q. What was the royalty rate payable on an
- 11 industry-wide basis?
- 12 A. 2 percent.
- 13 Q. I'm sorry?
- 14 A. 2 percent.
- 15 Q. Now, shifting gears again out of the
- 16 wayback machine and going to just slightly wayback
- 17 machine --
- 18 JUDGE BARNETT: Mr. Del Beccaro -- excuse
- 19 me. Mr. Del Beccaro, 2 percent of --
- THE WITNESS: 2 percent of our net
- 21 revenue. Same --
- JUDGE BARNETT: Net revenue?
- 23 THE WITNESS: Same basis that we pay the
- 24 8 and a half percent today.
- JUDGE BARNETT: Okay, thanks.

- 1 BY MR. FAKLER:
- O. So skipping ahead to the most recent last
- 3 rate proceeding, the SDARS II rate proceeding, what
- 4 starting point did the Judges use to set the current
- 5 PSS royalty rate?
- 6 A. 7 and a half percent.
- 7 Q. Was that the existing rate at the time?
- 8 A. Yes.
- 9 O. And did the Judges find that that
- 10 7.5 percent rate satisfied the 801(b) policy
- 11 factors?
- 12 A. They did.
- Q. But they did raise the rate, right?
- 14 A. Yes.
- 15 Q. And why did they do that?
- 16 A. Because at the time, our intention was to
- 17 expand from 50 to 300 channels, and there was a
- 18 sense that that would lead to a large increase in
- 19 usage of music. That's what the Judges felt, is my
- 20 understanding. And, therefore, we should pay a
- 21 higher rate.
- 22 Q. Now, had any participant in the
- 23 proceeding, had SoundExchange made that arrangement
- 24 during the proceeding?
- 25 A. No.

- 1 Q. Or anybody else?
- 2 A. No.
- 3 Q. Now, if Music Choice had been afforded
- 4 the opportunity to address this concern of the
- 5 Judges, what would it have shown?
- A. Well, we would have pointed out that a
- 7 customer can't listen to more than one song at a
- 8 time. So if I have more channels and I'm now
- 9 listening to this channel instead of that channel,
- 10 I'm not consuming more music.
- 11 So unless we were increasing our customer
- 12 base, which wasn't happening and not projected to
- 13 happen, it wouldn't lead to more listening. And if
- 14 it did lead to more revenue, then the 7.5 rate would
- 15 have captured the increase in revenue. So we
- 16 wouldn't have agreed that it made sense because
- 17 consumption was not going to go up, in our minds.
- 18 Q. Now, setting that aside, did Music Choice
- 19 actually go ahead and expand to 300 channels?
- 20 A. No, we couldn't afford to.
- Q. So would you say that Music Choice has
- 22 been overpaying in this past rate period?
- 23 A. Yes.
- O. What is Music Choice's rate proposal in
- 25 this proceeding?

- 1 A. 5.6 percent.
- Q. And is that 5 -- 5.6 or no higher or --
- 3 in other words, is -- is a range acceptable to Music
- 4 Choice or is -- in other words, is 5.6 the top of
- 5 the range or is it just 5.6?
- A. I'm not sure how to answer that question.
- 7 Q. It's not meant to be a memory test.
- 8 A. I feel like our proposal is 5.6 percent.
- 9 Q. And why are you asking for a rate
- 10 reduction?
- 11 A. Well, one, because we overpaid for an
- 12 extended period of time and the offset needs to be
- 13 more on a percentage basis because our revenues were
- 14 higher. So that's the primary reason.
- But I also feel that, you know, compared
- 16 to our fundamental competition, radio, we're at a
- 17 significant disadvantage and -- and we should be
- 18 paying a lower rate.
- 19 Q. And are there -- are there any changes to
- 20 Music Choice's financial condition relevant to the
- 21 801(b) factors that also militate in favor of a
- 22 reduction?
- 23 A. Well, the market has become tougher
- 24 financially, and the available pie gets smaller
- 25 every year because of the dynamics in the cable

- 1 industry and the television market.
- 2 And so our ability to make a profit and a
- 3 return in this business has become significantly
- 4 lower than five years ago.
- 5 Q. So with respect to the 801(b) policy
- 6 factors, why don't we talk first about -- skip to
- 7 the second factor, of fair income and fair return.
- 8 How many years did Music Choice operate
- 9 with annual losses?
- 10 A. 12 years before we turned a profit.
- 11 Q. And at this point, has Music Choice
- 12 generated enough profit from the residential audio
- 13 service alone to cover the total investments in the
- 14 company?
- 15 A. No, we have not.
- 16 Q. So on a cumulative basis, has Music
- 17 Choice's residential audio business, taken alone,
- 18 yet returned a profit?
- 19 A. We have not returned a profit, no.
- 20 Q. Has Music Choice become profitable on a
- 21 consolidated basis, based on all your business
- 22 lines?
- 23 A. Yes.
- Q. And where has that profit come from?
- 25 A. Largely from the commercial music

- 1 business.
- Q. Business lines other than the --
- 3 A. Yes.
- 4 O. -- residential?
- 5 A. Other than residential audio.
- 6 O. And has Music Choice made distributions
- 7 to its partners ever?
- 8 A. Yes.
- 9 Q. Would Music Choice have been able to make
- 10 those distributions if it had only offered a
- 11 residential audio service?
- 12 A. No, they did not.
- 13 Q. And if you turn to page 21 of your
- 14 written direct testimony at tab 55.
- 15 A. Okay.
- 16 Q. If you look at the top of the page, do
- 17 you give the numbers there of what the cumulative
- 18 losses for the residential audio, taken alone, were
- 19 at the beginning of 2015?
- 20 A. Yes, I see them.
- 21 O. And the --
- 22 A. Do you want me to state them out loud?
- Q. No, no, no. Right now we're in public
- 24 session --
- 25 A. Okay.

- 1 O. -- Mr. Del Beccaro. So anything that is
- 2 commercially sensitive, we're to go to try to work
- 3 off of the document so we don't have to say it out
- 4 loud, but we can -- those that have access to that
- 5 data can read them.
- 6 A. Okay.
- 7 Q. And that projects how that loss is
- 8 expected to increase?
- 9 A. Yes.
- 10 Q. By 2018? And if you look at the middle
- 11 of that page, just before subheading B, you give --
- 12 do you give a rate of return even taking the entire
- 13 consolidated business into account?
- 14 A. Yes, I do.
- 15 O. What the annualized rate of return -- is
- 16 that an accurate number?
- 17 A. Yes, it is.
- 18 Q. Now, how does Music Choice's overall
- 19 financial condition compare now to the way it was at
- 20 the time of the SDARS II proceeding?
- 21 A. We're not as healthy as we were at that
- 22 point in time.
- Q. So we'll talk a bit about the changes in
- 24 the market conditions that Music Choice has
- 25 experienced and the impact those changes have had on

- 1 the audio service's financial performance, but for
- 2 context, let's discuss the development of the PSS
- 3 market a little bit, do a little bit more of a
- 4 history lesson first.
- 5 Was Music Choice ever offered as a
- 6 premium standalone product?
- 7 A. Yes.
- 8 Q. And can you explain how that was?
- 9 A. When we first started, we had to be a
- 10 premium product because we -- no households in the
- 11 United States had a device that could receive a
- 12 digital signal and turn it into something a human
- 13 ear could hear.
- So we had to develop technology and put a
- 15 box in the home. And we had to develop a technology
- 16 that transmitted a digital signal to the home. And
- 17 that was -- between all that technology and actually
- 18 the service calls to the home, that required a
- 19 substantial investment by the cable operator, not
- 20 just our investment. And so we charged 10 dollars a
- 21 month to recoup that investment or so the cable
- 22 operator could recoup that investment.
- Q. And when did that change?
- A. It started to change in the mid-'90s with
- 25 DirecTV. It didn't change in the cable industry,

- 1 didn't start to change in the cable industry until a
- 2 little bit later because when DirecTV started, they
- 3 could -- when they launched in 1994, they could use
- 4 the latest technology available in 1994; whereas
- 5 cable operators had all these boxes in homes that
- 6 had been there since the '80s, and so it would take
- 7 them longer to transition over.
- 8 O. And when did Music Choice's business
- 9 model change away from the premium a la carte model?
- 10 A. It -- fundamentally, the change started
- 11 in 1994 with DirecTV.
- 12 Q. Okay. And -- and how did it change? How
- 13 did Music Choice adapt its business model?
- A. So when we were selling a la carte, it's
- 15 a -- it's a much more difficult business model and
- 16 was a much more difficult business model because
- 17 getting people to pay 10 dollars a month for
- 18 something they were used to getting for free was --
- 19 was very difficult. That cost a lot of money in
- 20 marketing expenses, and you had to stand out in the
- 21 crowd, differentiate your brand on a -- on a pretty
- 22 significant basis.
- 23 With DirecTV, since their technology was
- 24 completely digital, they were able to offer Music
- 25 Choice to every customer as part of the service. So

- 1 we didn't have to embark on anywhere near the same
- 2 consumer marketing investment.
- And so we moved from an a la carte
- 4 service, where a large amount of the revenue went to
- 5 technology recovery and service cost recovery, to a
- 6 basic service where, whether you use the service or
- 7 not, you effectively subsidize the service, just
- 8 like, frankly, all basic television networks.
- 9 O. So if I understand you, you moved then to
- 10 a model where the Music Choice service was bundled,
- 11 no longer charged separately for, but bundled with
- 12 the cable service?
- 13 A. That is correct.
- Q. And what sort of market penetration --
- 15 when you first moved to that model, what kind of
- 16 market penetration was Music Choice able to get?
- 17 A. We were averaging about 1 to 1.5 percent
- 18 penetration in various markets around the country.
- 19 Q. And how did that change over time?
- A. Well, at DirecTV we were in 100 percent.
- 21 Q. And how about over time with the cable
- 22 operators?
- 23 A. We -- we were able to strike deals
- 24 starting in the very late '90s where we were in
- 25 100 percent of digital homes, and so over time

1	through the 2000s and and even the recent 2010
2	decade, digital boxes have now permeated throughout
3	cable, and so we're in most every home in cable.
4	MR. FAKLER: Your Honors, at this point,
5	I'm going to be getting into a range of questions
6	with highly competitively sensitive information.
7	Could we please close the courtroom?
8	JUDGE BARNETT: Of course, Mr. Fakler.
9	At this time, we will close the hearing room.
10	(Whereupon, the trial proceeded in
11	confidential session.)
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- 1 OPEN SESSION
- 2 BY MR. FAKLER:
- O. But just -- Mr. Del Beccaro, just be
- 4 aware that we're in public session, okay?
- Now, Mr. Del Beccaro, you are aware, are
- 6 you not, that the record industry has previously had
- 7 a challenge in the transition from CD to digital
- 8 revenue streams, right?
- 9 A. Yes.
- 10 Q. But even during those periods, how have
- 11 record company profits compared to Music Choice's?
- 12 A. Of course, they have much larger
- 13 companies, and they have much larger profits.
- Q. Now, if we could turn to another one of
- 15 the policy factors, maximizing the availability of
- 16 creative works. Does the Music Choice residential
- 17 audio service help maximize the availability of
- 18 creative works to the public?
- 19 A. Yes.
- 20 O. And how?
- 21 A. Well, while today there's a large
- 22 distribution of the music over the Internet as an
- 23 example, there are tens of millions of homes who
- 24 don't have practical Internet access on any
- 25 reasonable basis and certainly a cost-effective

- 1 basis. So while -- while, even lower income homes
- 2 have Smartphones they don't have data plans that
- 3 would allow them to consume music.
- 4 So Music Choice is one of the most
- 5 fundamental ways that dozens of different music
- 6 formats are exposed to tens of millions of homes
- 7 that otherwise wouldn't be.
- 8 Q. And what effect does that additional
- 9 exposure have for the record companies?
- 10 A. Well, exposing more people to more music
- 11 leads to increased usage, increased sales.
- 12 Q. Does Music Choice -- Music Choice's audio
- 13 service substitute for other types of music services
- 14 that pay higher royalty rates to the record
- 15 industry?
- 16 A. No.
- 17 O. What does Music Choice's audio service
- 18 primarily substitute for in the market?
- 19 A. Radio.
- Q. And how do you know this?
- 21 A. We know it for two reasons, two
- 22 fundamental reasons. The first is that everybody by
- 23 now is familiar with Spotify and Pandora and very
- 24 familiar with the explosion in their usage, in
- 25 subscriptions in the last five years.

- 1 And research has shown that Music Choice
- 2 usage has gone up in each of the last four years.
- 3 And so if we were substitutional, the fact that
- 4 their usage has exploded and ours stills goes up
- 5 wouldn't make any sense.
- And we know that from our own research.
- 7 We also know it from research outside our company.
- 8 We know it, for example, from Cumulus radio.
- 9 Cumulus radio is the second largest radio group in
- 10 the United States with over 500 radio stations. And
- 11 we have been in an active partnership with them for
- 12 over three years.
- 13 They approached us because their research
- 14 showed that their listeners listen to them at work
- 15 and in the car, but when they got in the house, that
- 16 they turned on Music Choice. And their listening in
- 17 the home went down very substantially.
- 18 And so they approached us to work on a
- 19 partnership, and to this day, we -- we've been
- 20 working together. We promote their service and they
- 21 promote ours because while we substitute for them,
- 22 they basically in a sense ceded the home, feeling
- 23 that we have a good hold on those customers.
- And so what we are working on together is
- 25 promoting -- we're promoting a brand of theirs in

- our homes in a way that they could not achieve even
- 2 through their radio stations.
- Q. Now, in Music Choice internal documents,
- 4 does the company sometimes refer to services like
- 5 Spotify or Pandora as competitors?
- 6 A. Yes.
- 7 Q. And when that happens, what do you mean
- 8 by the term "competitors"?
- 9 A. Well, everybody in the music space has
- 10 access to consumers. And so -- and, of course, most
- 11 of the documents where we deal with Spotify --
- 12 Spotify and Pandora are documents either related to
- 13 people outside the company or the Board because
- 14 everybody, bluntly, thinks that companies like
- 15 Spotify and Pandora are going to put us out of
- 16 business.
- 17 And so while we -- our obvious, most
- 18 intense competition is with Stingray, because we
- 19 compete with them for cable operators, and then our
- 20 second most obvious competition is radio, because
- 21 that's -- that's what we are, we're a television
- 22 radio company.
- Everybody at the Board level, as an
- 24 example, is worried that these other businesses,
- 25 these other business models, are going to wipe us

- 1 out. And so it's usually in that context.
- Q. And what do you mean by business models
- 3 being what you're talking about?
- A. Well, they have a fundamentally different
- 5 business model. First off, Spotify has a very
- 6 different business model than Pandora, but both of
- 7 them have fundamentally different business models
- 8 than Music Choice.
- And so what, frankly, most people presume
- 10 and assume is that companies like that who have
- 11 invested literally hundreds of millions of dollars
- 12 in their brands have so much brand equity that
- 13 consumers will eventually drop us, and we'll become
- 14 the dust heap. So --
- 15 Q. Has that proven to be -- come to pass?
- 16 A. No. And, in fact, as I stated before,
- 17 our usage has gone up in each of the last four
- 18 years, which is the prime achievement time frame of
- 19 their success.
- 20 Q. Does Music Choice invest in its own
- 21 original creative works?
- 22 A. Yes.
- 23 O. What kind of creative content does Music
- 24 Choice create?
- A. It's almost all on the video side. We --

- 1 we have artists in our offices every week, and we
- 2 film interviews with them and we do various stunts
- 3 with them.
- 4 Q. Is there any creative work involved in
- 5 the curation of the audio channels --
- 6 A. Yes.
- 7 Q. -- or the on-screen display?
- 8 A. Yeah. So that gets -- I talked about one
- 9 of those earlier, the -- the curation techniques
- 10 that we have invested in and use are clearly
- 11 differential from Stingray and others.
- 12 And then we also invest a significant
- 13 amount in what we do on screen. We invested heavily
- 14 in developing that technology and we invest
- 15 routinely every day in personnel who work on what
- 16 shows up on the screen, coincident with the music
- 17 that's played.
- Q. How important is the on-screen component
- 19 of the audio channel to the service, to the value of
- 20 the service?
- 21 A. Our surveys say that over 90 percent of
- 22 our customers routinely look at the screen and know
- 23 what we're doing on the screen at least once a song.
- Q. Does the on-screen component of the audio
- 25 service differentiate Music Choice's service from

- 1 others in the field?
- 2 A. Yes. It's a patented technology that we
- 3 have, and we're able to provide contextual
- 4 information related to what's playing on television.
- 5 Others are not.
- 6 Q. How has the current rate affected Music
- 7 Choice's ability to help maximize the availability
- 8 of creative works?
- 9 A. Well, those -- creative and marketing
- 10 were departments that were --
- 11 Q. And let's not get into exact numbers
- 12 because we're in open. Just wanted to give you a
- 13 reminder. We can talk about some more details in a
- 14 little bit.
- 15 A. I mentioned two numbers before. Those
- 16 two departments were cut back by the higher number.
- 17 Q. And at the time of the SDARS II
- 18 proceeding, was Music Choice increasing its
- 19 investments in these forms of creative content?
- 20 A. Yes.
- 21 Q. Okay. So why don't we move on to another
- 22 of the policy factors, the relative contributions.
- 23 Generally speaking, how do Music Choice's -- and
- 24 just to refresh you a little bit, we're talking
- 25 about relative contributions to creative, technical

- 1 contributions, capital investment costs, risks, and
- 2 opening new markets, things like that.
- 3 Do you remember that, one of the longest
- 4 of the policy factors?
- 5 A. Yes.
- 6 Q. Generally speaking, how do Music Choice's
- 7 contributions stack up against the record
- 8 industry's?
- 9 A. Well, in terms of this particular market
- 10 segment, there is no -- there's no incremental
- 11 investment of -- of any substance by the record
- 12 companies. So they don't really have an investment
- 13 in what happens at Music Choice.
- Of course, Music Choice has to expend a
- 15 considerable amount of investment in order to
- 16 function and to prosper.
- 17 Q. And when the record companies invest in
- 18 these various segments, do they make those
- 19 investments with the PSS in mind?
- 20 A. No.
- Q. And do the record companies contribute at
- 22 all to the curation or original content on Music
- 23 Choice?
- 24 A. No.
- Q. Did Music Choice have to create any of

- 1 the technology necessary to launch the service?
- 2 A. Yes.
- 3 Q. And I think you spoke generally about
- 4 that before. Can you give some more specific
- 5 examples of the type of technology that had to be
- 6 invented?
- 7 A. Well, the television industry is, of
- 8 course, created for video. And so all the
- 9 technology from what happens over a satellite to
- 10 what moves down transmission lines to set-top boxes
- 11 has always -- to video on-demand, as an example, has
- 12 always been built for video products that had audio.
- 13 And Music Choice is almost the exact
- 14 opposite. We're an audio product that has an
- 15 on-screen video interface. And so none of the
- 16 technology worked without our personal intervention
- 17 and creativity and development.
- 18 So that's in the -- in the most
- 19 fundamental way.
- Q. Now, in more recent times, has Music
- 21 Choice continued to invest in technology?
- 22 A. Yes, this -- this comes up all the time.
- 23 So, for example, even now in video on-demand, which
- 24 has really started to blossom in the last couple of
- 25 years but has been worked on for the last ten years,

1	even now when companies create technology to make
2	video on-demand and to make it work, for example,
3	across platform, it's always done with video in
4	mind.
5	The only service that is audio in the
6	industry of any note is ours. And so usually what
7	happens is they develop they may develop a
8	break-through on how to bring a consumer product to
9	the country, but then we have to spend time
10	reworking with their development staffs to make it
11	work for music-related products. So it's a it's
12	a routine investment on an ongoing basis.
13	MR. FAKLER: Your Honors, at this point,
14	I think I need to go back into a restricted session
15	JUDGE BARNETT: We will be closing the
16	hearing room again. Except for Music Choice, of
17	course.
18	(Whereupon, the trial proceeded in
19	confidential session.)
20	
21	
22	
23	
24	
25	

- 1 OPEN SESSION
- 2 BY MR. FAKLER:
- Q. So just keep in mind, Mr. Del Beccaro,
- 4 the public is listening.
- 5 A. Okay.
- 6 O. Now let's talk a little bit about the
- 7 effect on Music Choice of SoundExchange's rate
- 8 proposal. If you would turn to page 21 of your
- 9 written rebuttal testimony, tab 57.
- 10 A. Okay.
- 11 Q. And, you know, now that we're in public
- 12 session, if you would just look under the heading of
- 13 the devastating effect section on that page.
- 14 A. Yes.
- 15 Q. Do you see the first highlighted figure?
- 16 Is that the amount of the effective percentage of
- 17 revenue that the SoundExchange proposal would
- 18 require Music Choice to pay?
- 19 A. It is, but that number is low. And the
- 20 reason it's low is because that's what it would be
- 21 immediately. But as I've discussed, as we
- 22 renegotiate these contracts, our rate is going to go
- 23 lower.
- So having any kind of fixed rate is going
- 25 to be extraordinarily problematic in this -- this

- 1 number.
- Q. Right.
- 3 A. Sorry, I almost said it. This number
- 4 will jump up dramatically over time.
- 5 Q. And could Music Choice possibly agree to
- 6 this kind of rate if it were negotiating in a
- 7 hypothetical competitive marketplace?
- 8 A. No. If -- if this was our business and
- 9 this is the rate, then it would mean we would have
- 10 to exit the business.
- 11 Q. And if you turn to tabs 924 and 925,
- 12 please.
- 13 A. Yes.
- Q. Now, are these similar financial analyses
- 15 that you did before but showing what the impact of
- 16 SoundExchange's rate proposal would be on Music
- 17 Choice?
- 18 A. Which tab?
- 19 Q. 924 and 925.
- 20 A. Yes.
- 21 Q. And turning back to page 23 of your
- 22 written rebuttal testimony, please. And tab 57.
- 23 A. Yes.
- Q. So without getting into the specifics, is
- 25 this the area where you discuss what the annual net

- 1 income was, as a standalone residential audio
- 2 service, Music Choice would experience under
- 3 SoundExchange's proposed rate?
- 4 A. Yes.
- 5 Q. And later in that paragraph, you note
- 6 that the bundled projections including the video
- 7 would be somewhat better, right?
- 8 A. Yes.
- 9 Q. But, again, is that driven entirely by
- 10 projections and increases in advertising revenue for
- 11 the video?
- 12 A. Yes.
- 13 Q. But even combining those, Music Choice
- 14 would -- the residential product would still be
- 15 unprofitable under the SoundExchange proposal,
- 16 correct?
- 17 A. Yes. And that requires an increase in
- 18 advertising revenue that we've been unable to
- 19 achieve in the first 12 years of our attempts to do
- 20 so.
- Q. Now, SoundExchange's rate proposal also
- 22 includes the request that Music Choice have to pay
- 23 an additional webcasting royalty for
- 24 transmissions -- Internet transmissions to its
- 25 subscribers, right?

- 1 A. Correct.
- 2 Q. How long has Music Choice been
- 3 transmitting -- been offering ancillary Internet
- 4 access to its subscribers?
- 5 A. Since the mid-1990s.
- 6 O. And how heavy has the usage been of the
- 7 Internet product?
- 8 A. It's a -- it's an extremely low percent.
- 9 It's 4 hundredths of 1 percent of our listening.
- 10 Q. And has it always been that low or lower?
- 11 A. Yes.
- Q. So just to be clear, you know, in this
- 13 past 20 years, you're talking about the mid-'90s,
- 14 which was before the first CARP proceeding, right?
- 15 A. Yes.
- 16 O. And, in fact, it was before Congress even
- 17 created the PSS designation, right?
- 18 A. Yes.
- 19 Q. Now, during all that time, has
- 20 SoundExchange ever argued in any rate proceeding or
- 21 any settlement negotiation for the rate or any
- 22 audit, that Music Choice -- that those Internet
- 23 transmissions weren't already covered by the PSS
- 24 royalty?
- 25 A. No.

- 1 Q. Now, did SoundExchange or its former
- 2 parent, RIAA, ever contact Music Choice about its
- 3 Internet product?
- 4 A. Yes.
- 5 Q. And when was that? Do you recall?
- A. I don't remember the specific year.
- 7 Q. But roughly? Was it more than ten years
- 8 ago?
- 9 A. It was a long time ago. I'd have to
- 10 look.
- 11 Q. Well, if you take -- well, I guess the
- 12 details aren't super important there. But what --
- 13 what was discussed? Do you recall what was
- 14 discussed with RIAA?
- 15 A. Well, in some sense, I think it was --
- 16 well, what was discussed is they were trying to say
- 17 that we now have a -- a new product that isn't
- 18 covered. And that, of course, wasn't true. That
- 19 product existed when the PSS was established -- PES
- 20 was established.
- 21 And -- and so we simply pointed out to
- 22 them that this has been there all along and it has
- 23 been out in the open all along. All their -- all
- 24 their member companies, UMG, Warner, Sony, were
- 25 totally aware of it, and I don't know why the

- 1 particular person who was negotiating with me was
- 2 trying to bring up this point.
- Q. And how did that back and forth
- 4 ultimately end up?
- 5 A. They backed away and -- and admitted
- 6 that, you know, there was nothing there.
- 7 Q. And if you turn to tab 926.
- B A. Yes.
- 9 Q. Can you tell me what this is?
- 10 A. Okay. So this is in that time frame
- 11 where the person that I most routinely dealt with,
- 12 Steven Marks, was trying to claim that we were doing
- 13 something new, starting -- well, we were doing
- 14 something new, and, therefore, we needed to pay them
- 15 separately for it.
- 16 Q. And does this refresh your recollection
- 17 as to the time frame that we're talking about here?
- 18 A. Yes.
- 19 O. When was it?
- 20 A. 2004.
- 21 O. And Mr. Marks -- Music Choice has -- from
- 22 time to time, while in happy or older times, has
- 23 managed to settle a couple of these rate
- 24 proceedings, right, with SoundExchange?
- 25 A. Yes.

- 1 Q. Who did you negotiate those settlements
- 2 with personally?
- 3 A. Steven Marks.
- Q. Now, after this exchange with RIAA and
- 5 Mr. Marks, did Music Choice continue to invest in
- 6 its Internet app and web portal?
- 7 A. Yes.
- 8 Q. So has SoundExchange been paid for any
- 9 value that the Internet product adds to Music
- 10 Choice's service through the existing rate?
- 11 A. Yes, because all television services are
- 12 available on the Internet. There -- there's no TV
- 13 everywhere concept, unless they're all available.
- If we, for example, were -- were to
- 15 restrict our availability to simply TV, not only --
- 16 forget about the competitiveness advantage. Cable
- 17 operators won't actually contract with us because
- 18 they need to be able to say that you have the rights
- 19 to view this on all devices. Of course, you have to
- 20 -- it's only because you have the subscription. So
- 21 we're not available on the open Internet.
- 22 And that's a pretty fundamental
- 23 distinction between us and other companies. This --
- 24 these rates, for example, that Pandora and others
- 25 pay, they have the right to provide their music

- 1 services on the open Internet for which they pay
- 2 those rates. Music Choice doesn't have that. Music
- 3 Choice has to remain as part of a subscription. And
- 4 so we don't -- we have never provided our services
- 5 on the open Internet.
- Q. And in your experience, is it unusual for
- 7 a TV programming provider to bundle its Internet
- 8 access along, you know, with the television channels
- 9 to the MVPDs at one charge?
- 10 A. Yes.
- 11 Q. Does Stingray provide Internet
- 12 transmissions?
- 13 A. Yes.
- 14 Q. And has it been paying webcasting
- 15 royalties the whole time it has been doing that?
- 16 A. No.
- 17 Q. Now, do you know when they stopped
- 18 paying?
- 19 A. They stopped paying in '14, '15 time
- 20 frame, if I'm not mistaken.
- Q. And do you know whether Stingray had
- 22 actually stopped providing these Internet streams in
- 23 2015?
- 24 A. I know they provided the streams in that
- 25 time frame.

- 1 O. And --
- 2 A. I heard them.
- 3 Q. I'm sorry.
- 4 A. I listened to them.
- 5 Q. And was there something very major
- 6 happening in Stingray's business in the end of 2014,
- 7 early 2015 time frame?
- 8 A. Yes, that's when they won the contract
- 9 for AT&T from us.
- 10 Q. And is the AT&T platform particularly
- 11 heavy with respect to streaming and app-based usage?
- 12 A. Yes. That is the product.
- 13 Q. So having been on AT&T in the past and
- 14 knowing the size of the MVPD, would Stingray's
- 15 Internet streaming usage go up dramatically in that
- 16 time, because of that addition?
- 17 A. Yes. Prior to that, Stingray had been in
- 18 only very small operators. And the incidence of TV
- 19 everywhere in small operators in the 2013 time frame
- 20 was almost nonexistent. So they would have had
- 21 basically no usage on-line.
- Q. Just to return to an earlier topic
- 23 because when you discussed the -- and I know that
- 24 you mentioned before that, before they got the AT&T
- 25 account, all of the rest of their MVPDs were

- 1 relatively very small MVPDs --
- 2 A. Yes.
- 3 O. -- right? Does that fact impact
- 4 Stingray's ability to ramp up and take a large
- 5 market share while paying the CABSAT rates?
- 6 A. Yes, because their customers --
- 7 Q. And we can't give the details.
- 8 A. Yeah.
- 9 Q. We're in open. So if you can say it --
- 10 A. Okay. So the customers that they had
- 11 prior to AT&T were paying us considerably more than
- 12 the Verizon rate I quoted, the very high Verizon
- 13 rate. So the clump they were in was extraordinarily
- 14 high. So paying 2 cents out of that price on a
- 15 percentage basis would have been actually less than
- 16 the percent we were paying.
- 17 But the lion's share of the market is
- 18 with the big guys. And as we talked about in the
- 19 earlier sessions, their price and the price
- 20 necessary for them, 2 cents in, for example, the two
- 21 affiliates we have been unable to win business in,
- 22 would -- would be completely untenable.
- O. And can Music Choice track individual
- 24 performances, streaming performances, through its
- 25 app or website?

- 1 A. No, we can -- we can tell if you've
- 2 logged on to a stream, but we -- so we can tell you
- 3 listen to a channel. We can't tell what songs were
- 4 played while you were there.
- 5 Q. And can you tell with any granularity
- 6 exactly when the listening occurred?
- 7 A. No. Our -- our current capabilities do
- 8 not give us that information.
- 9 Q. So if Music Choice had to pay the
- 10 existing commercial webcasting royalties based on
- 11 each individual performance or listen by an
- 12 individual customer, could it do so?
- 13 A. We don't have the reporting tools to do
- 14 that.
- 15 Q. Now, turning to just briefly the
- 16 regulations, the proposals that SoundExchange has
- 17 made for changes in the regulations, have the
- 18 existing PSS regulations been in place for a long
- 19 time?
- 20 A. Yes.
- Q. And were they set in the very first CARP?
- 22 A. Yes.
- Q. And have they changed since then in any
- 24 material way?
- 25 A. No.

- 1 O. And in all that time, have there been any
- 2 problems with respect to the functioning of the
- 3 regulations?
- 4 A. No.
- 5 O. Has SoundExchange ever come to Music
- 6 Choice and complained about any feature of the
- 7 regulations?
- 8 A. No.
- 9 Q. And what would be the result of changing
- 10 the regulations after all of this time on Music
- 11 Choice?
- 12 A. Well, changing the regulations would
- 13 fundamentally only affect Music Choice. And so that
- 14 means we would have to go through some expense in
- 15 order to do different. And, bluntly, I think, given
- 16 that -- the regulations require compliance that
- 17 basically we have to meet.
- 18 We're very skeptical about proposed
- 19 changes because certainly in prior periods, they
- 20 have proposed changes which effectively meant we
- 21 paid more. But they were done in subtle ways that
- 22 weren't apparent.
- So I don't -- you know, this has worked
- 24 for 20 years. I don't know why it requires a
- 25 change.

- 1 O. Now, in your written testimony, you go
- 2 through in significant detail what your -- what you
- 3 were best able to figure out some of the changes are
- 4 because they weren't presented in a way that was
- 5 easy to see all of the changes from the existing PSS
- 6 regs.
- 7 A. Yes.
- 8 O. And not to go through in that minutiae
- 9 here live, but several of the changes relate to the
- 10 confidentiality provisions, right?
- 11 A. Exactly. And that would be a very big
- 12 problem.
- Q. Can you explain the importance of the
- 14 existing confidentiality regulations to Music
- 15 Choice?
- 16 A. Yes. The music companies have tried two
- 17 different things that providing them with more
- 18 confidential Music Choice information would be
- 19 compromising. The first is when we negotiate our
- 20 video license agreements with them, they routinely
- 21 try to get us to, in essence, renounce our payment
- 22 structure on audio and pay a higher rate. And so
- 23 any additional information that they could get to
- 24 help that cause would hurt us.
- 25 The second thing they -- they do is they

- 1 have routinely over the years tried to work directly
- 2 with the cable operators on the video side of the
- 3 business and eliminate us as a provider in between.
- So, again, you know, we're not anxious to
- 5 provide them with information that allows them to
- 6 try to eliminate the role we play.
- 7 Q. And is Music Choice a publicly traded
- 8 company?
- 9 A. No.
- 10 O. Is it -- are -- are a lot of Music
- 11 Choice's business information kept confidential and
- 12 not available to the public?
- 13 A. Yes, almost all of it.
- Q. Now, several of the other changes that
- 15 are being proposed have to do with the audit
- 16 provisions.
- 17 A. Yes.
- 18 Q. Right? And one in particular has to do
- 19 with the eliminating the utility of the -- what you
- 20 refer to in your testimony as a defensive audit
- 21 provision.
- 22 A. Correct.
- Q. Can you just tell us briefly what the
- 24 defensive audit provision is?
- 25 A. Okay. The defensive audit allows us to

- 1 have one of the accomplished and renowned accounting
- 2 firms to audit our payments and structure with
- 3 SoundExchange and we make adjustments, if necessary,
- 4 based on those audits.
- 5 Q. So rather than -- as a proactive measure,
- 6 can Music Choice have an independent auditor come
- 7 and verify the payments on an annual basis?
- 8 A. Yes, that's what we do.
- 9 Q. And those substitute for an audit
- 10 conducted by SoundExchange?
- 11 A. Yes. And that is what we do.
- 12 Q. And was that asked for in the very first
- 13 CARP?
- 14 A. Yes.
- 15 Q. Very specifically by the PSS?
- 16 A. Yes.
- 17 Q. And has Music Choice been taking
- 18 advantage of this provision?
- 19 A. Yes, every year.
- 20 Q. On occasion, has Music Choice ever,
- 21 through this process, found a late payment that
- 22 required a true-up for interest?
- 23 A. Yes. In the -- in the '13-'14 --
- Q. Don't give numbers because we're in open
- 25 session.

- 1 A. -- right -- time frame, what the audits
- 2 found is that while the amounts of the payments were
- 3 all correct, that some of our payments were late.
- 4 We were having late payment issues with a number of
- 5 vendors. And so the audit found that we had made
- 6 some payments late, and so we assessed and paid the
- 7 interest based on the audits.
- 8 Q. Without waiting for any external audit
- 9 from SoundExchange?
- 10 A. No. I mean, correct, without waiting.
- 11 Q. So, well, in closing, since we're
- 12 approaching the lunch hour, in SoundExchange's
- 13 opening, their lawyer, Mr. Handzo, told the Court
- 14 that Music Choice was coming to Court in this
- 15 proceeding to tell a sob story.
- 16 How do you respond to that?
- 17 A. Well, I don't believe I've ever met him.
- 18 I don't know him. I don't know why he thinks it's a
- 19 sob story. I think -- I mean, we certainly don't
- 20 feel like we're a sob story.
- I think that the people at our company
- 22 are very proud of what we have done. We're the
- 23 first digital broadcaster in the world. We brought
- 24 music formats to masses of people in the United
- 25 States that never had that exposure. We were the

- 1 first people to multi-cast on the Internet. We were
- 2 the first people to put a music service on the
- 3 telephone. We were the first people to develop
- 4 interactive services on television, on the video
- 5 side.
- 6 And most people who look at the video
- 7 interface we've created and started introducing this
- 8 year is well ahead of anybody else. So I think -- I
- 9 think that most people would describe our company as
- 10 being full of relentless optimists, and not whining,
- 11 sob story people.
- 12 And, you know, look, we've stayed at this
- 13 business. It wasn't until the 13th year we achieved
- 14 profitability. We're now in our 13th year of
- 15 unprofitability on the video side, and we're not
- 16 giving up. So I don't -- I don't know what he's
- 17 talking about.
- 18 Q. Thank you, Mr. Del Beccaro.
- 19 MR. FAKLER: That concludes my direct
- 20 examination.
- 21 JUDGE BARNETT: Thank you, Mr. Fakler.
- 22 Very timely. Mr. Freedman, will you be conducting
- 23 cross-examination?
- MR. FREEDMAN: Yes, Your Honor. I'm glad
- 25 to proceed now or to go to lunch as you prefer.

1	JUDGE BARNETT: Let's take our noon
2	recess. We'll be back Mr. Fakler, if we return
3	at 1, will that still
4	MR. FAKLER: Yes.
5	JUDGE BARNETT: leave you enough time
6	to complete your other witness?
7	MR. FAKLER: Yes, Your Honor.
8	JUDGE BARNETT: Okay, 1:00 o'clock.
9	(Whereupon, at 12:03 p.m., a lunch recess
10	was taken.)
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- 1 AFTERNOON SESSION
- 2 (1:14 p.m.)
- 3 JUDGE BARNETT: Good afternoon. Please
- 4 be seated. Mr. Freedman?
- 5 MR. FREEDMAN: Yes, Your Honor, I think
- 6 Mr. Handzo wanted to address a housekeeping matter
- 7 before the cross-examination.
- 8 JUDGE BARNETT: Good.
- 9 MR. HANDZO: If I may, I know it is
- 10 always the highlight of the day. So just to close
- 11 the loop on the George White exhibits we talked
- 12 about yesterday.
- 13 JUDGE BARNETT: Yes.
- MR. HANDZO: I think we have agreed on a
- 15 sort of process to put that to bed. The process is
- 16 that Sirius XM will let SoundExchange know by the
- 17 end of the day tomorrow which of those they object
- 18 to and which they do not.
- To the extent that there are still
- 20 objections, we have agreed to submit letter briefs
- 21 to the Court simultaneously close of business on
- 22 Wednesday, letter briefs not to exceed three pages.
- 23 And then -- so that's those. And then
- 24 Ms. Whittle asked me to read into the record the
- 25 numbers, just so we're clear on what they are.

- 1 JUDGE BARNETT: Thank you.
- MR. HANDZO: So they are 161.1, 162, 163,
- 3 170, 171, 173, 175, 177.1, 177.2, 179, 180.1, 180.2,
- 4 184.1, 184.2, 186, 190, 194.1, 194.2, 200, 201.1,
- 5 201.2, 203, 205, 206, 209, 210, 211, 212, 215, 217,
- 6 218, 219, 220, 228, 229, 233, 236, 237, 239, 335.1,
- 7 335.2, 336, 337, 340, 341, 342, 343, 344.1, 344.2,
- 8 344.3.
- 9 (SoundExchange Exhibit Numbers 161.1,
- 10 162, 163, 170, 171, 173, 175, 177.1, 177.2, 179,
- 11 180.1, 180.2, 184.1, 184.2, 186, 190, 194.1, 194.2,
- 12 200, 201.1, 201.2, 203, 205, 206, 209, 210, 211,
- 13 212, 215, 217, 218, 219, 220, 228, 229, 233, 236,
- 14 237, 239, 335.1, 335.2, 336, 337, 340, 341, 342,
- 15 343, 344.1, 344.2, 344.3 were marked for
- 16 identification.)
- 17 MR. HANDZO: Then lastly, there were six
- 18 exhibits that SoundExchange -- I'm sorry, five
- 19 exhibits that SoundExchange was going to move into
- 20 evidence that are objected to, so I am going to read
- 21 those numbers into the record. And we're going to
- 22 fold them into the same letter brief that I alluded
- 23 to earlier.
- JUDGE BARNETT: Thank you.
- 25 MR. HANDZO: Those are 263.7, 345, 367,

- 1 368, and 369.
- 2 (Sound Exchange Exhibit Numbers 263.7,
- 3 345, 367, 368, and 369 were marked for
- 4 identification.)
- JUDGE BARNETT: Thank you. Mr. Rich?
- 6 MR. RICH: Your Honor, we have agreed to
- 7 the procedure. Just to be clear, so there are no
- 8 surprises, we would anticipate as to at least a
- 9 number of these, and intend to preserve, and I think
- 10 Mr. Handzo understands that we intend to preserve
- 11 the argument that these were untimely presented even
- 12 for proffers of evidence given that they could have
- 13 been shown to witnesses in a timely fashion.
- 14 But rather than burden the record now
- 15 with that, we will try to minimize obviously any
- 16 disagreements, but I want to make crystal clear the
- 17 fact that they are being proffered now is not by us
- 18 any concession that they are being timely proffered,
- 19 subject only to hearsay or earlier objections.
- 20 MR. HANDZO: And I understand that
- 21 reservation. And we will deal with it in the
- 22 briefs.
- JUDGE BARNETT: Thank you.
- JUDGE STRICKLER: Will the brief also
- 25 make that timeliness argument as well?

- 1 MR. RICH: To the extent we feel it is
- 2 appropriate to as to particular arguments we will.
- JUDGE STRICKLER: Thank you.
- 4 JUDGE BARNETT: Thank you very much.
- 5 Now, Mr. Freedman?
- 6 MR. FREEDMAN: Thank you, Your Honor.
- 7 CROSS-EXAMINATION
- 8 BY MR. FREEDMAN:
- 9 Q. Good afternoon, Mr. Del Beccaro.
- 10 A. Good afternoon.
- 11 Q. I am Jared Freedman, one of the lawyers
- 12 for SoundExchange, and I will be asking you some
- 13 questions.
- So you believe the statutory rates that
- 15 Music Choice pays for its residential audio service
- 16 are too high, correct?
- 17 A. Yes.
- 18 Q. But you have never asked any of the
- 19 record companies to grant you a direct license for
- 20 your residential audio service at a rate below the
- 21 statutory rate, right?
- 22 A. Well, yes, originally back when we
- 23 negotiated our first licenses with them, we did
- 24 negotiate a lower rate.
- Q. And, I'm sorry, when was that?

- 1 A. In the 1990s.
- 2 Q. Since the 1990s, you have not, correct?
- 3 A. Oh, no, I -- I have in my negotiations
- 4 with Steven Marks and, in fact, prior to this
- 5 proceeding requested that the rate be moved to
- 6 below.
- 7 Q. And you have never -- Music Choice has
- 8 never obtained a direct license with any record
- 9 company below the statutory rate for its residential
- 10 audio service, correct?
- 11 A. Well, we did in 1993 and 1994.
- 12 Q. I apologize.
- 13 A. Since the -- since the PSS, no.
- Q. So since that 1993/'94 time frame, you
- 15 have not, correct?
- 16 A. No.
- 17 Q. "No" meaning I am correct?
- 18 A. No, we haven't gotten a lower license
- 19 than the proceeding. Is that what you are asking
- 20 me?
- Q. I am asking whether you have ever
- 22 negotiated a direct license, so --
- 23 A. Oh, no, other than -- not since '94.
- Q. So since '94, you have never negotiated
- 25 -- you have never successfully negotiated a direct

- 1 license for your residential audio service below the
- 2 statutory rate, correct?
- 3 A. Correct.
- Q. And I think I understood you to say this
- 5 morning that if you were to -- it would be cost
- 6 prohibitive to try to negotiate direct licenses with
- 7 all of the record companies; is that right?
- 8 A. Correct.
- 9 Q. And I think you said you had estimated it
- 10 would cost you 3 million dollars; is that right?
- 11 A. Minimum, per year.
- Q. Per year. So by using the statutory
- 13 license, you avoid that 3 million dollars per year
- 14 cost; is that right?
- 15 A. Yes.
- 16 Q. Now, you are aware that the major record
- 17 companies and their distribution companies
- 18 distribute numerous independent record labels,
- 19 right?
- 20 A. Yes, that's in the 50 percent that I had
- 21 spoken about this morning.
- 22 O. Well, isn't it true that the market share
- 23 of the Majors, if you counted by what they
- 24 distribute, is closer to 80 percent?
- A. No, not for the music we play.

- 1 Q. Not for music you play?
- 2 A. No. I mean, our analysis is it is
- 3 49 percent.
- Q. And if you negotiated with the Majors
- 5 direct licenses with the Majors, and if you
- 6 negotiated direct licenses with, say, Merlin and
- 7 INGrooves, you would have a substantial chunk of the
- 8 market of the music you play, right?
- 9 A. Well, it would be a little over half.
- 10 Remember we're not playing just what radio plays.
- 11 We have formats radio would never touch and we go
- 12 much deeper. So we're going -- we're far more
- 13 likely to play an independent label's music than
- 14 other outlets.
- 15 O. And my question now is it is not all or
- 16 nothing in terms of direct licenses; in other words,
- 17 you could negotiate direct licenses with some of the
- 18 record companies and have the rates you can get in
- 19 those licenses and then you could use the statutory
- 20 rates for whatever repertoire is not covered by
- 21 those, right?
- 22 A. Theoretically. From a practical
- 23 standpoint, no record company -- the major record
- 24 companies are not going to open a negotiation with
- 25 us and talk about a lower rate. You know, they

- 1 already have in their minds, it is a floor, it is
- 2 too low, so their conversations are always we should
- 3 have it higher.
- 4 So it is -- that's a theoretical
- 5 possibility, but not a practical one.
- 6 Q. So it is your understanding they won't
- 7 give you a right below the statutory rate, correct?
- 8 A. I'm sure their stance now is that,
- 9 correct, yes.
- 10 Q. Now, did I understand you this morning to
- 11 say that you believe Music Choice competes with
- 12 terrestrial radio?
- 13 A. Yes.
- 14 Q. Do people listen to Music Choice
- 15 primarily in the home?
- 16 A. Yes.
- 17 Q. Do people listen to terrestrial radio
- 18 primarily in the car?
- 19 A. Yes.
- Q. Now, you would agree that the statutory
- 21 PSS rate -- when I say PSS, you understand I am
- 22 talking about the statutory license that applies to
- 23 Music Choice?
- 24 A. Yes.
- Q. You would agree the statutory PSS rate is

- 1 lower than the rates that all the other types of
- 2 digital music services pay for the use of sound
- 3 recordings, other than terrestrial radio, right?
- 4 A. Yes.
- 5 Q. Sirius XM pays a higher statutory rate
- 6 for its SDARS, right?
- 7 A. Yes.
- Q. The CABSATs pay higher statutory rates,
- 9 right?
- 10 A. Yes.
- 11 Q. Music Choice pays a higher statutory rate
- 12 for its business establishment service, right?
- 13 A. It is a completely different basis but
- 14 yes.
- 15 Q. Statutory webcasters pay higher rates
- 16 than you, right?
- 17 A. Yes.
- 18 Q. And Music Choice in its video services
- 19 agreements pays higher rates than the statutory PSS
- 20 rate, right?
- 21 A. Yes.
- Q. And interactive webcasters pay higher
- 23 rates than under their direct licenses than you pay?
- 24 A. Yes.
- 25 Q. Correct?

- 1 A. Yes.
- Q. But you think it is fair that artists
- 3 should receive lower royalties from Music Choice
- 4 than from every other music service in the
- 5 marketplace, right?
- 6 A. The largest player in the marketplace is
- 7 radio, and they pay nothing. So we pay more and
- 8 we're radio. We're not the services you outlined.
- 9 We're nothing like the services you outlined.
- 10 Q. And as compared to all those other
- 11 services, you think artists should receive less from
- 12 you than from all those other services, right?
- 13 A. Artists make more when they perform a
- 14 concert too. It doesn't have anything to do with
- 15 us.
- 16 Q. So Music Choice has been in business for
- 17 over 30 years; is that right?
- 18 A. Yes. 30 years. This is year 30.
- 19 Q. This is year 30?
- 20 A. Yeah.
- Q. Okay. And as an overall enterprise,
- 22 Music Choice is currently profitable, correct?
- 23 A. Yes.
- Q. You are not testifying that Music
- 25 Choice's overall business has suffered 30 years of

- 1 losses, right?
- 2 A. No.
- O. Music Choice is in business to make a
- 4 profit, right?
- 5 A. Yes.
- 6 O. And Music Choice has continued to offer
- 7 its residential audio service for the past 30 years
- 8 because it contributes to the profitability of Music
- 9 Choice's overall business, right?
- 10 A. Well, as we -- as I testified earlier,
- 11 the first 12 years we didn't make any money. We
- 12 have had other years, for example, I mean, this year
- 13 we're basically just above break-even. So, you
- 14 know, we did not make money the entire 30 years, but
- 15 if you are -- but the point being that we're in
- 16 business to make money is absolutely true.
- Q. And as part of that profit-maximizing
- 18 effort, you have continued to offer the residential
- 19 audio service, correct?
- 20 A. Yes.
- Q. Now, in the ordinary course of business,
- 22 you don't maintain a separate balance sheet for
- 23 Music Choice's residential audio service, meaning
- 24 separate from the rest of the business, correct?
- 25 A. No.

- 1 Q. In the ordinary course of business, Music
- 2 Choice accounts for the costs and revenues for the
- 3 overall business as a whole, right?
- 4 A. Yes.
- 5 Q. And you looked with Mr. Fakler this
- 6 morning at two exhibits, Exhibit 918 and 919. I
- 7 don't know if you still have that binder.
- 8 A. Yes.
- 9 Q. And I know you are overwhelmed with paper
- 10 here.
- 11 A. Which one do you want to look at?
- 12 Q. I just wanted to make sure you recalled
- 13 what they were for the moment.
- 14 A. Yes, yes. I have them right here.
- 15 Q. Those documents were prepared for this
- 16 litigation, correct?
- 17 A. Yes.
- 18 Q. Those are not documents that are
- 19 maintained in the ordinary course of business,
- 20 right?
- 21 A. No.
- Q. And if you look at Exhibit 919, that
- 23 doesn't -- does that include -- does that include
- 24 Music Choice's entire business or is there a portion
- 25 of the business not included?

1	A.	It doesn't it does not include
2	commercial	•
3	Q.	Okay.
4		MR. FREEDMAN: Your Honor, at this time
5	would like	to to ask a few questions that I think
6	may relate	to some restricted information of Music
7	Choice, so	I would ask that we close the courtroom,
8	please.	
9		JUDGE BARNETT: Sure. We will
10	temporarily	y close the hearing room.
11		(Whereupon, the trial proceeded in
12	confidentia	al session.)
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- 1 OPEN SESSION
- 2 BY MR. FREEDMAN:
- Q. Mr. Del Beccaro, you are not an
- 4 economist, right?
- 5 A. No.
- Q. You are not claiming to offer expert
- 7 economic opinions in this case, are you?
- 8 A. No.
- 9 Q. You are not a lawyer, right?
- 10 A. No.
- 11 Q. You are not offering legal opinions,
- 12 right?
- 13 A. No.
- Q. And you are not an accountant, are you?
- 15 A. No.
- 16 Q. Now, I want to ask you about page 20 of
- 17 your written direct testimony.
- 18 A. Okay.
- 19 Q. So I want to avoid saying anything
- 20 restricted out loud if we can. I will certainly
- 21 try.
- 22 A. Okay.
- Q. But do you see in the first paragraph on
- 24 page 20 you refer to an amount that Music Choice's
- 25 partners have invested in the company?

- 1 A. Yes.
- 2 O. Now, that amount was invested over the
- 3 course of 30 years; is that right?
- A. Yes, but it was invested in the original
- 5 12 years is the way to think about it.
- 6 Q. So the amount that is listed there was
- 7 all -- I am not sure what the verb is -- was all
- 8 invested in the company in the first 12 years?
- 9 A. Frontloaded.
- 10 Q. Was front loaded as you say?
- 11 A. Yes.
- 12 O. And no investments since then?
- 13 A. No.
- Q. And the investors have realized returns
- 15 on their investment over that time period over the
- 16 last 30 years, right?
- 17 A. Yes.
- Q. And has some of that investment helped
- 19 fuel Music Choice's non-statutory video service line
- 20 of business?
- 21 A. Yes.
- Q. Now, Music Choice is a partnership with
- 23 various companies, correct?
- 24 A. Yes.
- Q. And you talked about that this morning.

- 1 Do you recall that?
- 2 A. Yes.
- Q. And, in fact, on page 2 of your indirect
- 4 testimony, you list the companies who are partners
- 5 in Music Choice?
- 6 A. Yes.
- 7 Q. And you were involved in the formation of
- 8 the partnership, right?
- 9 A. Yes.
- 10 Q. And you helped secure the financing for
- 11 the partnership, right?
- 12 A. Yes.
- Q. And in your written testimony you discuss
- 14 the partnership and some of the negotiations you had
- 15 with some of the partners, correct?
- 16 A. Yes.
- Q. And, in fact, earlier this morning from
- 18 judge -- you had some questions from Judge Barnett
- 19 where you discussed the partnership arrangements as
- 20 it was formed in 1999; is that right?
- 21 A. Well, reformed. Not reformed even.
- 22 Recalibrated might be a better expression.
- Q. Well, was there a partnership agreement
- 24 signed in 1999?
- 25 A. We had a partnership agreement and we

- 1 amended it, yes.
- Q. So just so we're sort of using the same
- 3 language so I don't misspeak, in 1999 was the
- 4 partnership agreement amended; is that fair?
- 5 A. Yes.
- Q. Okay. And you answered some questions
- 7 about that this morning. Do you recall that?
- 8 A. Yes.
- 9 Q. Okay. I want to show you Exhibit 504 if
- 10 I may. I'm sorry, when I say "show you," I mean it
- 11 is in the binder we passed out.
- 12 A. Oh, this one. Okay.
- Q. Did you find it there behind the tab 504?
- 14 A. Yes.
- Q. Now, do you see these are some responses
- 16 from Music Choice to some interrogatories in this
- 17 proceeding?
- 18 A. Yes, I see that.
- 19 Q. And if you turn to page 4.
- 20 A. Okay.
- Q. Do you see there is an Interrogatory
- 22 Number 1. And then going on to page 5, there is a
- 23 response from Music Choice?
- 24 A. Yes.
- Q. Do you see that?

- 1 A. Yes.
- Q. And in this response Music Choice
- 3 describes how each of its current partners acquired
- 4 its ownership interest in Music Choice among other
- 5 things. Do you see that there?
- 6 A. Yes, I do.
- 7 Q. Have you seen this document before?
- 8 A. Yes.
- 9 Q. Did you review it before counsel
- 10 submitted it?
- 11 A. Yes.
- MR. FREEDMAN: Your Honor, at this time I
- 13 move admission of Trial Exhibit 504 into evidence.
- MR. FAKLER: No objection, Your Honor.
- 15 JUDGE BARNETT: 504 is admitted.
- 16 (SoundExchange Exhibit Number 504 was
- 17 marked and received into evidence.)
- 18 BY MR. FREEDMAN:
- 19 Q. Now, we were discussing a minute ago the
- 20 partnership agreement, and I want to ask you now to
- 21 turn to the next tab, which is Exhibit 505.
- 22 A. Okay.
- Q. Do you recognize this document?
- A. Yes, it has been a while since I looked
- 25 at this document.

- 1 Q. I'm sorry?
- 2 A. It has been a while since I looked at
- 3 this document.
- 4 Q. But you have seen this before?
- 5 A. Yes.
- 6 O. And what is it?
- 7 A. It is the amendment to the partnership.
- Q. And this is the one you were discussing
- 9 earlier today?
- 10 A. It is one of them. This is -- this
- 11 amendment actually came a little later than -- this
- 12 morning's discussion was mostly around 1999.
- 13 Q. Yes.
- 14 A. This amendment is 2004.
- 15 Q. I see. Now, if I could also have you
- 16 turn, if you look at Exhibits 507, 508, and 509, I
- 17 will ask you if you also recognize those documents?
- 18 A. Yes.
- 19 O. And what are those?
- 20 A. These are amendments to extend the term
- 21 of the partnership.
- 22 MR. FREEDMAN: Your Honor, at this time I
- 23 would move the admission of Trial Exhibits 505, 507,
- 24 508, and 509.
- MR. FAKLER: With the clarification these

- 1 are not the partnership agreements that Mr. Del
- 2 Beccaro was actually testifying about, no objection.
- 3 JUDGE BARNETT: 505, 507, 508, and 509
- 4 are admitted.
- 5 (SoundExchange Exhibit Numbers 505, 507,
- 6 508, and 509 were marked and received into
- 7 evidence.)
- 8 BY MR. FREEDMAN:
- 9 Q. Now, I don't think this is restricted,
- 10 but if the answer that you would give needs you to
- 11 say restricted information, just let us know.
- 12 A. Okay.
- Q. But, well, is Music Choice currently
- 14 majority-owned by cable companies?
- 15 A. No.
- 16 Q. Okay. If I ask you some questions about
- 17 the percentages, though, is that restricted?
- 18 A. It is not public knowledge.
- 19 Q. Okay. So I don't want to -- I don't want
- 20 to utter anything restricted. I am trying to be
- 21 careful.
- 22 A. I know there is a chart here, though,
- 23 that I could say yeah, that's the percentage.
- MR. FREEDMAN: So, Your Honor, I
- 25 apologize, but very briefly, can we go into

1	restricted session? I'm sorry.
2	JUDGE BARNETT: Sure. We will close the
3	hearing room for a very short period.
4	(Whereupon, the trial proceeded in
5	confidential session.)
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- 1 OPEN SESSION
- 2 BY MR. FREEDMAN:
- 3 Q. So one reason that you think the PSS
- 4 rates should be reduced is because you believe the
- 5 Judges set the rate too high five years ago; is that
- 6 right?
- 7 A. Yes.
- 8 O. And you want the rate lowered for one
- 9 reason is essentially to make Music Choice whole for
- 10 what you view as sort of its overpayments over the
- 11 last few years, right?
- 12 A. Correct.
- Q. So if the Judges were to set a statutory
- 14 rate too low, is it your testimony that the Judges
- 15 should then in a subsequent proceeding increase the
- 16 rate to make Copyright Owners and artists whole?
- 17 A. It depends on what the reason for the too
- 18 low is. In this particular case you have a factual
- 19 reason for the increase that was turned out to be
- 20 factually incorrect. So I don't know if a corollary
- 21 could happen and is conceivable.
- 22 Q. When you say factually incorrect, you
- 23 mean --
- A. We didn't expand to the 300 channels.
- Q. Okay. So new topic. You would agree the

- 1 marketplace for digital music services is changed
- 2 significantly over the past 30 years, right?
- 3 A. Yes.
- Q. And Music Choice was one of the very
- 5 first digital music services, right?
- 6 A. Yes.
- 7 Q. Were you the first?
- 8 A. Yes.
- 9 Q. But over the years there has been a
- 10 proliferation of lots of services that offer digital
- 11 streaming of sound recordings, right?
- 12 A. Yes.
- Q. And one reason you think the PSS rates
- 14 should be lower is because of the challenging
- 15 economic environment that Music Choice faces, right?
- 16 A. I think the rates should be lower because
- 17 Congress's policy states that there are -- there is
- 18 a basis for which our rate needs to be set, and that
- 19 consistent with that basis, our rate should be
- 20 lower.
- 21 O. And does the current economic or
- 22 financial condition in which Music Choice finds
- 23 itself relevant to that?
- 24 A. Yes.
- Q. One of the factors that you talked about

- 1 in your written testimony is the competitive
- 2 pressure from various market entrants that seek to
- 3 undercut your pricing. Do you recall that?
- 4 A. Yes.
- 5 Q. And that's one of the challenges you are
- 6 facing, right?
- 7 A. Yes.
- 8 Q. And that includes competition from
- 9 Stingray, right?
- 10 A. Yes.
- 11 Q. And it is your view Stingray tries to
- 12 undercut your prices?
- 13 A. Yes.
- Q. Stingray tries to take business away from
- 15 you, right?
- 16 A. Yes.
- Q. And, in fact, you lost AT&T to Stingray,
- 18 right?
- 19 A. Yes.
- Q. And Stingray is trying to make inroads in
- 21 the market and trying to replace your service with
- 22 its service on other cable carriers, right?
- 23 A. That's correct.
- Q. And in your view the reason Stingray has
- 25 not been able to gain greater market penetration is

- 1 because you offer a superior product, correct?
- 2 A. Yes.
- Q. But you're aware Stingray filed a lawsuit
- 4 against Music Choice, correct?
- 5 A. Well, they filed a nuisance claim against
- 6 us because we sued them for patent infringement.
- 7 Q. Right. So you sued them first and then
- 8 they countersued you, correct?
- 9 A. Yes.
- 10 MR. FAKLER: Your Honor, I would like to
- 11 object to this line of questioning as outside the
- 12 scope of anything that Mr. Del Beccaro has testified
- 13 to in this proceeding. Patent infringement cases
- 14 against Stingray have nothing to do with this case.
- 15 JUDGE BARNETT: How is this related to
- 16 Mr. Del Beccaro's testimony?
- 17 MR. FREEDMAN: Sure, Your Honor. I'm not
- 18 actually interested in the patent infringement part
- 19 of it. What I am interested in is the unfair
- 20 competition claims that Stingray has made in a
- 21 federal lawsuit that they filed against Music
- 22 Choice. And that's what I intend to ask him about.
- 23 He talks in his testimony about the
- 24 competition that they face from Stingray and that
- 25 the reason they are beating Stingray is because they

- 1 have a superior product. I want to ask him about
- 2 the unfair competition and tortious interference
- 3 claims that Stingray made against them in a federal
- 4 lawsuit.
- 5 MR. FAKLER: Your Honor, as I am sure
- 6 Your Honor is well aware, unfair competition is a
- 7 body of law. Although it has the word "competition"
- 8 in it, that does not mean it is logically related to
- 9 the sort of competition that Mr. Del Beccaro is
- 10 discussing in this case and is the subject of this
- 11 case.
- 12 As Mr. Del Beccaro already stated, it was
- 13 a countersuit filed in the context of a complex
- 14 patent litigation.
- 15 JUDGE BARNETT: All right. And claims
- 16 are just claims. Objection sustained.
- 17 BY MR. FREEDMAN:
- 18 Q. Now, you're aware and I think you
- 19 testified this morning that Sirius XM operates its
- 20 CABSAT service at the statutory CABSAT rates, right?
- 21 A. Yes.
- 22 Q. And you're aware Stingray operates its
- 23 CABSAT service at the statutory CABSAT rates, right?
- 24 A. Yes.
- 25 Q. Those companies make business decisions

- 1 to operate at those rates, correct?
- 2 A. Yes.
- 3 Q. Just like you have made a business
- 4 decision to operate at the PSS rates, right?
- 5 A. Yes.
- Q. And if the statutory rates are too high,
- 7 any of those services, you or the CABSAT services,
- 8 you can try to negotiate below the statutory rate,
- 9 right?
- 10 A. Well, as I stated earlier from a
- 11 practical standpoint, there is no chance that the
- 12 major labels would discuss with us a lower rate.
- 13 They wouldn't even -- it is such a non-concept.
- 14 You know, they -- we have discussed audio
- 15 rates many times and as recently as March in detail,
- 16 and they do not want to discuss a compromise rate or
- 17 anything like that. They have simply tried to get
- 18 us to pay higher rates.
- 19 There is no concept of a conversation
- 20 starting from scratch, let's just say. It doesn't
- 21 work like that.
- 22 O. And you could choose if you wanted to not
- 23 to offer residential audio service, correct?
- A. Well, if we did, we would be out of
- 25 business. It is 97 percent -- it is -- it is a huge

- 1 portion of our revenue. And so if we decided to
- 2 exit the residential audio business, we would have
- 3 no business.
- JUDGE STRICKLER: Excuse me, counsel.
- I wanted to ask you a question, so
- 6 perhaps only tangentially related to this, but in
- 7 the competition that you noted with Stingray, as
- 8 between Stingray and Music Choice.
- 9 THE WITNESS: Yes.
- 10 JUDGE STRICKLER: Did you say that
- 11 Stingray is paying more -- well, Stingray is paying
- 12 more money to the labels under its license that it
- 13 negotiated or that it is subject to by way of the
- 14 settlement than Music Choice is presently; is that
- 15 right?
- 16 THE WITNESS: They are paying a different
- 17 rate structured at a higher rate per customer on
- 18 average. But, remember, their average license fee,
- 19 while their license fees are always lower than ours
- 20 for that particular customer, their average license
- 21 fee is higher than ours because they only have small
- 22 customers and one moderate size customer.
- JUDGE STRICKLER: So on a per customer
- 24 basis, they pay more?
- 25 THE WITNESS: Yeah.

- 1 JUDGE STRICKLER: And did you say also
- 2 that when it came to the fees that they were
- 3 charging to the cable companies, they were charging
- 4 less?
- 5 THE WITNESS: For the same customer, they
- 6 charge less than we do, yes.
- 7 JUDGE STRICKLER: So I wanted to try to
- 8 relay that to the first factor under 801(b)(1),
- 9 which is maximizing the availability of music.
- 10 If they are paying more money to the
- 11 labels, at least on a per-subscriber basis, that's
- 12 compared to Music Choice giving more money to the
- 13 labels and therefore to the artists as well, and if
- 14 they are paying -- if they are receiving less money
- 15 from the cable companies, they are competing with
- 16 you on price and they are making it more affordable,
- 17 all other things being equal, for the cable
- 18 companies to be able to obtain the music that is
- 19 then accessed by the customers.
- 20 So both on the upstream market with the
- 21 labels and in the downstream market with regard to
- 22 the cable companies, it seems like that rate is
- 23 more -- better satisfies the 801(b)(1) first factor
- 24 with maximizing availability. Suppliers are induced
- 25 and the customers get a lower price.

- 1 Is there something wrong with that
- 2 analysis?
- 3 THE WITNESS: The problem with that is
- 4 that it only works when you are creaming the high
- 5 end of the market. So I will give a theoretical
- 6 price just for practical discussion.
- 7 Let's say we were charging somebody 50
- 8 cents. It is easy to come in and say: Okay, well,
- 9 now you can have it for 40 cents. And then win a
- 10 deal.
- 11 When you take the summation of all that
- 12 both from a revenue standpoint because we're talking
- 13 about cable companies that have hundreds or
- 14 thousands of customers, instead of millions and tens
- 15 of millions of customers. So from a practical
- 16 standpoint, what we're talking about are lower rates
- 17 to very few people.
- 18 When you go into the larger clumps that I
- 19 spoke about this morning, there is -- the only way
- 20 they could win that business -- and this is why they
- 21 haven't won business from the largest cable
- 22 operators -- they would have to price it below the
- 23 rate that they are paying for cable -- CABSAT.
- So it won't work. That's why it is easy,
- 25 like I say, if somebody is at 50 cents to undercut

- 1 us on price and say well, I'm achieving your desired
- 2 outcome.
- JUDGE STRICKLER: So when you said they
- 4 are skimming the cream, the cream you referred to
- 5 are the smaller --
- THE WITNESS: Yeah, the operators who
- 7 bluntly have the least amount of leverage and have
- 8 to pay the absolute highest price.
- JUDGE STRICKLER: And because they have
- 10 to pay the average highest price, in that sense it
- 11 is the cream?
- 12 THE WITNESS: Yes.
- 13 JUDGE STRICKLER: Thank you.
- 14 BY MR. FREEDMAN:
- 15 Q. I wanted to ask you about page 31 of your
- 16 written rebuttal testimony, please.
- 17 A. Okay.
- 18 Q. And if you look in the first full
- 19 paragraph, I want to ask you about part of the first
- 20 sentence there where you say that Music Choice does
- 21 not receive the data necessary to track individual
- 22 performances.
- Do you see that?
- 24 A. Yes.
- Q. And is this -- I should have asked one

- 1 other question first.
- 2 Is this with respect to your Internet
- 3 transmissions that this discussion is taking place?
- 4 A. This is with respect to all our business.
- 5 Q. I'm sorry?
- 6 A. This is in respect -- well, this
- 7 paragraph, yes. I see in the first clause it says
- 8 for Internet transmissions.
- 9 Q. I apologize. I did that out of sequence
- 10 but so we're on the same page.
- 11 A. Sure.
- 12 Q. It is your testimony that with respect to
- 13 your Internet transmissions, Music Choice doesn't
- 14 receive the data necessary to track individual
- 15 performances; is that right?
- 16 A. Correct.
- 17 Q. Okay. Now, when you say Music Choice
- 18 doesn't receive the data, is that because Music
- 19 Choice has a contractor that collects usage data for
- 20 Music Choice's Internet transmissions?
- 21 A. Could you repeat that?
- 22 Q. Sure. Does Music Choice have a
- 23 contractor who collects usage data for Music
- 24 Choice's Internet transmissions?
- 25 A. No, I don't believe -- I don't believe

- 1 so. The reason -- here is the difference between
- 2 what we do and maybe some others do. We take our
- 3 broadcast and put it on the Internet.
- 4 So each song is not an individual asset
- 5 the way it is, for example, for Pandora. So in
- 6 Pandora, while you are getting a stream, it is this
- 7 song and it is that song and then this song. We're
- 8 streaming a broadcast network.
- 9 So when we find out that you listened to
- 10 it for 50 minutes, we don't know what was on in the
- 11 50 minutes. We don't have that kind of data.
- 12 And Pandora knows that they sent you that
- 13 song and then they know they sent you the next song.
- 14 So we don't have that kind of data.
- Q. And so, for example, have you ever heard
- 16 of a company called Triton?
- 17 A. Yes.
- 18 Q. And you don't use a company like that to
- 19 receive usage data for your Internet transmissions?
- 20 A. No.
- Q. You are not suggesting that it is
- 22 technologically impossible to know how many
- 23 listeners are listening to each performance of your
- 24 Internet transmissions, right? You are just saying
- 25 you don't track it, correct?

- 1 A. Yes, we don't track it because it would
- 2 be prohibitively expensive. Remember, we have the
- 3 incredibly low percentage I mentioned this morning
- 4 of our listening. And so to spend the amount of
- 5 money it would take to embed the streams with the
- 6 collection data would be -- let me put it this way.
- 7 It would cost more to do that than we make overall
- 8 in the whole business, so it wouldn't be worth it.
- 9 Q. You mentioned a few minutes ago, I think,
- 10 by way of example, you referred to Pandora and the
- 11 way they may receive data, correct?
- 12 A. Yes.
- Q. You're aware that, in fact, there are
- 14 thousands of webcasters who rely on a statutory
- 15 webcasting license and they manage to count the
- 16 number of performances included in their
- 17 transmissions, right?
- 18 A. Yes, they are in a different business.
- 19 They are -- how they send their signals, everything
- 20 is different from us. They are not radio.
- Q. I want to ask you about terms for a
- 22 minute.
- 23 A. Sure.
- Q. Did I hear you this morning say that
- 25 SoundExchange's proposed changes to the terms

- 1 regulations effectively mean that you end up paying
- 2 more?
- A. What you heard me say is that is one of
- 4 my fears, yes, that they would end up, in essence,
- 5 tricking us into subtle ways. I mean, for example,
- 6 in the past, they have proposed subtle changes for
- 7 the definition of revenue, which seems very inert,
- 8 but, in fact, would result in us -- in them
- 9 achieving higher payments than they would receive
- 10 through the process of setting the rate.
- 11 Q. Well, you have had a chance in this
- 12 proceeding to see the rate proposal that
- 13 SoundExchange submitted back in October, right?
- 14 A. Yes.
- 15 Q. And is there anything in there that you
- 16 can point to where you think SoundExchange is trying
- 17 to trick you?
- 18 A. Well, I still think it is tricky in this
- 19 regard. I think saying that, for example, access to
- 20 confidential information should be granted here when
- 21 -- because other businesses provide this type of
- 22 information, we're not in those other businesses.
- 23 We're not in the business of -- we're most similar
- 24 to broadcast radio. Broadcast radio doesn't provide
- 25 the type of data you are requesting from us.

- 1 And so it seems innocuous to say other
- 2 people provide. Those other people are not in the
- 3 business we're in. And so I do think that's
- 4 "tricky."
- 5 Q. How would proposed changes to the
- 6 confidentiality regulations effectively result in
- 7 Music Choice having to pay more under the statutory
- 8 license?
- 9 A. Okay. Well, it won't directly, but
- 10 providing data access to the companies that are
- 11 trying to find leverage against Music Choice, it
- 12 wouldn't directly in the audio side necessarily, but
- 13 I can tell you very cleanly that in our negotiations
- 14 on the video side, it is expressed routinely to me
- 15 that we need to pay more for video than other
- 16 players because we're not paying enough in audio.
- So if I give more audio information, I'm
- 18 -- you know, they can just twist that further.
- 19 Q. Well, those -- you are not talking about
- 20 negotiations with SoundExchange, right?
- 21 A. No, I'm talking about the owners of
- 22 SoundExchange.
- 23 Q. Well --
- 24 A. UMG, Sony, Warner.
- Q. They are not owners but you are talking

- 1 about members of SoundExchange, record companies?
- 2 A. Well, I think you know they are more than
- 3 members. They -- they sit on the board. They are
- 4 the ones that control policy at SoundExchange. And
- 5 so their -- they overtly, in conversations with me
- 6 directly, will routinely state that we have to pay
- 7 in essence a penalty for video because we're not
- 8 paying enough on audio.
- 9 Q. Right. So the record companies think
- 10 that the PSS rates are too low is what you are
- 11 saying, right?
- 12 A. Yes.
- Q. Now, what confidential information do you
- 14 currently provide to SoundExchange in the ordinary
- 15 course of business?
- 16 A. In the ordinary course of business?
- 17 O. Right, to administer the PSS license.
- 18 A. Well, things like our revenue, things
- 19 like our playlists.
- Q. Right. So you provide a statement of
- 21 account every month, correct?
- 22 A. Yes.
- Q. And that has your topline revenue on it,
- 24 right?
- 25 A. Yes.

- 1 O. And that's the monthly information that
- 2 SoundExchange gets, right, along with the music you
- 3 played, right?
- 4 A. Yes.
- 5 Q. And you're aware SoundExchange's -- and
- 6 that's the only confidential information you provide
- 7 to SoundExchange on a monthly basis, right?
- 8 A. I'm -- well, that's -- I believe that's
- 9 the main information. I don't want to say
- 10 absolutely that's all. I am not familiar with --
- 11 Q. But you can't think of any sitting here
- 12 now, can you?
- 13 A. No.
- Q. You are aware SoundExchange is proposing
- 15 a per-subscriber rate in this case, right?
- 16 A. Yes.
- 17 Q. And that would require you if that were
- 18 adopted, if a per-subscriber rate were adopted, that
- 19 would just require you to provide your number of
- 20 subscribers to SoundExchange, right?
- 21 A. Yes, which is confidential information.
- 22 That's -- that would be valuable information to a
- 23 competitor and valuable information to a record
- 24 company.
- MR. FREEDMAN: Your Honor, I would like

1	to request we go into restricted session, I think
2	for the last time of this examination, one more
3	section to cover.
4	JUDGE BARNETT: Okay. We will close the
5	hearing room briefly.
6	(Whereupon, the trial proceeded in
7	confidential session.)
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- 1 OPEN SESSION
- 2 REDIRECT EXAMINATION
- 3 BY MR. FAKLER:
- Q. Mr. Del Beccaro, you were just asked
- 5 about direct licensing again and, you know, couldn't
- 6 Music Choice direct license less than 100 percent of
- 7 the music, so rely on both the statute and direct
- 8 licenses, right?
- 9 A. Yes.
- 10 O. Now, the PSS rate is calculated on a
- 11 percentage of the revenue of Music Choice's revenue
- 12 from the PSS, right?
- 13 A. Correct.
- Q. So if you went out and negotiated direct
- 15 licenses for a portion of the music you play,
- 16 wouldn't you still have to pay the entire percentage
- 17 of revenue on PSS plus whatever royalty you had to
- 18 pay under the direct license?
- 19 A. As far as I know.
- Q. And when you were discussing as counsel
- 21 put it allocation of costs and revenue in the
- 22 financial schedules that you submitted --
- 23 A. Yes.
- Q. -- just to be clear, when you created
- 25 those figures of what it would cost to do the

- 1 audio-only service, for example, did you allocate in
- 2 the sense of looking at each cost and saying:
- 3 80 percent goes to audio, 20 percent goes to
- 4 something else or did you, rather, look at each cost
- 5 and each headcount, each person in the department
- 6 and say: Would they be needed if we were
- 7 audio-only?
- 8 A. The latter. We -- we structured the
- 9 entire analysis on what would be required to run an
- 10 audio-only business.
- MR. FAKLER: That completes my redirect.
- 12 Thank you.
- JUDGE BARNETT: Thank you, Mr. Fakler.
- 14 Thank you, Mr. Del Beccaro. You may step
- 15 down.
- 16 THE WITNESS: Thank you.
- 17 MR. FAKLER: Music Choice calls Damon
- 18 Williams. We will get Mr. Williams.
- JUDGE BARNETT: Thank you.
- 20 MR. FREEDMAN: Your Honor, I don't think
- 21 you have met yet our colleague Kendall Turner, who
- 22 will be handling this cross-examination.
- JUDGE BARNETT: Nice to meet you,
- 24 Ms. Turner.
- MS. TURNER: Nice to meet you.

- JUDGE BARNETT: Mr. Williams, please
- 2 raise your right hand.
- 3 Whereupon--
- 4 DAMON WILLIAMS,
- 5 having been first duly sworn, was examined and
- 6 testified as follows:
- 7 JUDGE BARNETT: Please be seated.
- 8 DIRECT EXAMINATION
- 9 BY MR. FAKLER:
- 10 Q. Good afternoon, Mr. Williams.
- 11 A. Good afternoon.
- 12 Q. Could you please state your name for the
- 13 record?
- 14 A. Damon Williams.
- 15 Q. And where are you employed?
- 16 A. Music Choice.
- 17 Q. What is your current job title?
- 18 A. Senior vice president of programming
- 19 strategy and partnerships.
- Q. How long have you held that position at
- 21 Music Choice?
- 22 A. Since July of 2015.
- Q. If you would please turn to tab 56 in
- 24 your binder. And let me know if you recognize that
- 25 document?

- 1 A. Yes, this is my written direct testimony.
- Q. And if you turn to the final page. Is
- 3 that your signature?
- 4 A. Yes, that is my signature.
- 5 MR. FAKLER: Your Honors, I would offer
- 6 into evidence Trial Exhibit 56.
- 7 MS. TURNER: No objection.
- JUDGE BARNETT: 56 is admitted.
- 9 (Joint Exhibit Number 56 was marked and
- 10 received into evidence.)
- 11 BY MR. FAKLER:
- Q. Now, Mr. Williams, in preparing for your
- 13 testimony today, did you find any minor errors in
- 14 this document?
- 15 A. Yes. There were two errors. First up,
- 16 Jason Derulo, who was noted on the artist visit
- 17 list, is actually a recording artist for Warner
- 18 Brothers Records, not Atlantic Records.
- 19 And also in the exhibit where I talk
- 20 about how we compare to radio, the audience metric
- 21 should be our weekly listening, not monthly
- 22 listening.
- 23 JUDGE FEDER: Can you direct us to the
- 24 page numbers?
- 25 BY MR. FAKLER:

1	Q. Absolutely. Let's start with the written
2	direct because I believe the Jason Derulo issue
3	involves the rebuttal testimony, which we haven't
4	gotten to yet.
5	So if you take a look at page 12 of your
6	written direct testimony. Towards the top of the
7	middle paragraph, is that the 3.5 million you were
8	just talking about?
9	A. Yes, it is.
LO	Q. And so you were saying that it should
L1	JUDGE BARNETT: That's restricted.
L2	MR. FAKLER: Right now I am doing it.
L3	JUDGE STRICKLER: But it had no context.
L4	MR. FAKLER: That's true.
L5	JUDGE BARNETT: Yes. The number
L6	before we identify what the number is, maybe we
L7	should just close the room for a moment.
L8	MR. FAKLER: Just for a moment. With my
L 9	apologies.
20	(Whereupon, the trial proceeded in
21	confidential session.)
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- 1 OPEN SESSION
- 2 BY MR. FAKLER:
- 3 O. If you turn to tab 58, do you recognize
- 4 this document?
- 5 A. Yes, this is my rebuttal testimony.
- Q. And if you turn to the last page, is that
- 7 your signature?
- 8 A. Yes, that is my signature.
- 9 Q. And in connection with your written
- 10 rebuttal testimony, you included a chart of audience
- 11 visits; is that right?
- 12 A. Yes, I did.
- 13 O. And is that the chart where Jason Derulo
- 14 was listed as an Atlantic artist?
- 15 A. Yes.
- 16 Q. And who is actually Jason Derulo
- 17 affiliated with?
- 18 A. Jason Derulo is actually affiliated with
- 19 Warner Brothers Records, which is owned by Warner
- 20 Music Group, which owns Atlantic Records and Warner
- 21 Brothers.
- 22 Q. Thank you very much.
- JUDGE BARNETT: Where is the chart?
- 24 MR. FAKLER: Oh, it is one of the
- 25 exhibits.

- 1 BY MR. FAKLER:
- Q. Would you turn to Exhibit Number 961,
- 3 which is already in evidence. Is this the chart in
- 4 which you, for example, if you look at the 2014
- 5 listings?
- A. Yes, this is the chart.
- 7 Q. Oh, okay. So to the extent on certain of
- 8 these entries Jason Derulo is listed as an Atlantic
- 9 artist, that's what you would like to correct?
- 10 A. Yes.
- JUDGE FEDER: Mr. Fakler, have you
- 12 offered Exhibit 58 in?
- MR. FAKLER: Thank you. At this time I
- 14 would like to offer 58 into evidence.
- MS. TURNER: No objection.
- 16 JUDGE STRICKLER: Why don't you take the
- 17 day off tomorrow?
- 18 MR. FAKLER: I will take that under
- 19 advisement, Your Honor.
- JUDGE BARNETT: 58 is admitted.
- 21 (Joint Exhibit Number 58 was marked and
- 22 received into evidence.)
- 23 JUDGE BARNETT: Am I to understand that
- 24 961 is --
- MR. FAKLER: Already admitted.

- 1 JUDGE BARNETT: -- an attachment?
- 2 MR. FAKLER: It is already admitted
- 3 pursuant to the bulk.
- JUDGE BARNETT: Thank you.
- 5 BY MR. FAKLER:
- 6 Q. Mr. Williams, what are your job
- 7 responsibilities at Music Choice?
- 8 A. My job responsibilities at Music Choice
- 9 are to oversee our programming strategy and program
- 10 initiatives as it relates to building audience
- 11 tune-in for our audio channels and for our related
- 12 video service.
- 13 I'm also in charge of working on the
- 14 business strategy for how we interface with all of
- 15 the major record labels, including independent
- 16 labels. And I work on programs with the record
- 17 labels to promote artists across our channels.
- 18 Q. And when did you get your first job in
- 19 the music industry?
- 20 A. I started in the music industry in the
- 21 late '80s, at a radio station in Virginia Beach,
- 22 Virginia called Power 94. I was the music director
- 23 for that radio station, and I worked on air play
- 24 promotions with record labels.
- Q. How many years did you spend in radio?

- 1 A. About 15 years in radio before coming
- 2 here.
- Q. And at that point did you move to Music
- 4 Choice?
- 5 A. Yes, I did.
- 6 Q. And been there ever since?
- 7 A. Yes.
- 8 Q. And what was your first position at Music
- 9 Choice?
- 10 A. My first position at Music Choice was
- 11 manager of R&B programming.
- 12 Q. In the Programming Department itself?
- 13 A. Yeah, inside the Programming Department
- 14 itself, yes.
- Q. So in your testimony you use the term
- 16 curated when describing Music Choice's residential
- 17 audio service. Can you just briefly explain what
- 18 you mean by that?
- 19 A. What it means when we curate something is
- 20 that we actually have a team of people that are
- 21 literally listening to every song that is selected
- 22 for air play on our service. Those people that are
- 23 selecting the songs are actually following criteria
- 24 that we have developed internally, which is our
- 25 programming philosophy, and so for every song that

- 1 is chosen on the service, it is curated based upon
- 2 one, the expertise of the person programming the
- 3 music, research that we acquire around the songs
- 4 that we're thinking about playing, and other
- 5 dynamics in the music industry.
- 6 So we are a pusher of music. We collect
- 7 it. We gather it. We figure out the best way to
- 8 play it back to give consumers an experience. And
- 9 from my perspective, that's what curation is.
- 10 Q. Can you explain Music Choice's curation
- 11 or programming philosophy by which you are
- 12 programming channels?
- 13 A. Sure. So our programming philosophy
- 14 first kind of starts off in the human thought, in
- 15 having expertise and first thinking about, okay, who
- 16 is our target audience? Who are we trying to reach
- 17 with this service? How do we create a unique
- 18 destination for consumers to experience music?
- As part of that process, our philosophy
- 20 is to deliver that in a commercial-free format,
- 21 where there is no interruptions and the music is not
- 22 repetitive. So our program philosophy involves
- 23 around creating a music experience that is
- 24 commercial-free, that is seamless, and that is
- 25 guided by a series of curation rules that we create

- 1 to develop, we think, what we think is a very, very
- 2 unique experience.
- 3 We think one of the reasons why people
- 4 enjoy our product is that it is curated for longer
- 5 listening sessions. And we think that's one of the
- 6 things that kind of separates us from other
- 7 services.
- 8 Q. And I believe in your testimony you go
- 9 into more detail and even in your exhibit, in the
- 10 details of the programming philosophy. And rather
- 11 than close the courtroom, we will just rely on that.
- But can you explain how Music Choice's
- 13 programming philosophy differs or differentiates
- 14 Music Choice from other digital music services?
- 15 A. Well, I mean, I think -- I think most
- 16 digital music services are interactive or on-demand.
- 17 And it starts out with the idea that I'm going to
- 18 select this individual song and I'm going to have an
- 19 experience with that song.
- I think the big difference between us and
- 21 Digital Services, we're not using an algorithm.
- 22 We're not using a series of just data points to
- 23 determine how we're going to create a music
- 24 experience. Again, we're actually taking people
- 25 that are experts in a very specific genre, having

- 1 them apply an established set of rules, analyzing
- 2 research to determine what is the best way to play
- 3 back the music.
- And that's very, very different than
- 5 taking a bunch of music and kind of dumping it into
- 6 an algorithm based on some variables and depending
- 7 on that, to play it back in an experience.
- 8 So I believe the big difference is really
- 9 human thought and the fact that people are actually
- 10 doing it versus an algorithm.
- 11 Q. And does consumer research play any role
- 12 in Music Choice's programming philosophy?
- 13 A. Yeah, consumer research plays a huge
- 14 role. And, again, is one of the tenets of our
- 15 programming philosophy. So the idea is that we need
- 16 to understand who our consumers are in cable
- 17 households.
- 18 So we employ research from companies like
- 19 Ipsos, OTX, from Nielsen, to give our programmers
- 20 the tools they need to understand first who are we
- 21 trying to reach. And then the second part of that
- 22 is having relationships or researching within the
- 23 music industry at large.
- I mean, you have to understand what's
- 25 going on at large with the music industry as it

- 1 relates to even trends in music. So, for example,
- 2 with the digital service, if it is a new form of
- 3 music, there is no data yet. And so how are you
- 4 going to like it? How are you going to start?
- 5 There is nothing to go on.
- 6 Our team is constantly using research,
- 7 whether it is formal from something like Ipsos or
- 8 something that they are researching through, again,
- 9 kind of the ecosystem of the music industry,
- 10 determine what's the best product to put on there.
- 11 Q. And if you turn to tab 934 in your
- 12 binder. Do you know what this document is?
- 13 A. Yes. This is the Ipsos OTX research
- 14 study for Music Choice.
- Q. And is this an example of the type of
- 16 consumer research that Music Choice relies on that
- 17 you were just discussing?
- 18 A. Yes, it is.
- Q. And have you read this document before?
- 20 A. Yes. I'm very familiar with this
- 21 document. I have not only read it, I'm part of the
- 22 team that decides how are we going to put together
- 23 this survey to get the best results and best
- 24 research.
- MR. FAKLER: Your Honors, at this time I

- 1 would like to offer Exhibit 934 into evidence.
- MS. TURNER: No objection.
- JUDGE BARNETT: 934 is admitted.
- 4 (Music Choice Exhibit Number 934 was
- 5 marked and received into evidence.)
- 6 BY MR. FAKLER:
- 7 Q. Now, does Music Choice's audio service
- 8 promote other revenue streams for the record
- 9 companies and the artists?
- 10 A. Yeah. I think Music Choice's audio
- 11 service absolutely promotes other revenue streams
- 12 for labels in a number of ways. First of all, just
- 13 through the air play. The fact that we're playing
- 14 songs that is generating more awareness.
- 15 I think the second component that is
- 16 really important is our on-screen interface. And so
- 17 with our on-screen interface, we are broadcasting
- 18 metadata, the artist name, the song title, the
- 19 actual image of the artist that is educating
- 20 consumers.
- 21 So if I'm a consumer, I am watching the
- 22 Music Choice experience, I see a song on screen. If
- 23 I search for that, typically I'm taken to a link to
- 24 a service that offers a label an opportunity to
- 25 generate revenue. That could be iTunes. That could

- 1 be Spotify. A number of different ways from
- 2 watching or engaging with Music Choice. They are
- 3 taken to other platforms.
- 4 The other way I think we do that is Music
- 5 Choice is a media-based reporter, and I'm sure we
- 6 will talk a lot more about that, but our air play is
- 7 basically a reference point for other media
- 8 platforms across the country that when they see what
- 9 Music Choice is playing, they may start to consider
- 10 playing that song.
- 11 So the more air play you have, the better
- 12 opportunity that you have to monetize this.
- 13 Q. In your testimony you discuss your
- 14 experience that Music Choice helps to break new
- 15 artists. Can you briefly just explain what you mean
- 16 by that?
- 17 A. So I have been in Music Choice for 18
- 18 years. And I have had the pleasure of watching a
- 19 lot of artists go from being someone that has a
- 20 dream to becoming a superstar.
- 21 And Music Choice is typically one of the
- 22 first places that an artist gets their song played.
- 23 It is very, very hard to get your song placed on
- 24 terrestrial radio. There is only about 40 songs at
- 25 any given time that are playing on a terrestrial

- 1 radio station.
- 2 Music Choice is commercial free. And it
- 3 plays more music in an hour than most media
- 4 platforms. And through our programming philosophy,
- 5 we have actually strategically set up where if you
- 6 can think of it as slotting, we have slots that play
- 7 new music.
- 8 And so by having more opportunities to
- 9 play new music, it is achieving that goal.
- 10 O. And does expert human curation give Music
- 11 Choice any kind of edge over the data-driven
- 12 services when it comes to breaking new artists?
- 13 A. Yeah. Again, absolutely. I think it
- 14 does because those music experts are closer to the
- 15 music, they are closer to the culture related to the
- 16 music. Oftentimes you have genres of music or
- 17 sub-genres of music that become popular because they
- 18 started in some region of the country or some other
- 19 part of the world and they make it back to the U.S.
- 20 Again, if you don't have that data in an
- 21 algorithm, that opportunity does not exist for an
- 22 interactive service to highlight that music. So in
- 23 the case of Music Choice, we're finding that music
- 24 first, historically we're playing that music, and
- 25 not only that, you know, we have programs that

- 1 highlight it.
- So, for example, we have a program called
- 3 Brand New This Week, where we will highlight new
- 4 songs to the platform to even highlight to consumers
- 5 that there is opportunities to discover music.
- Q. Now, is Brand New This Week on the audio
- 7 channels or part of the video package?
- 8 A. Brand New This Week is on the audio
- 9 channels.
- 10 Q. And in your experience does Music Choice
- 11 tend to break new artists before the digital music
- 12 services like Pandora, Spotify, or Apple?
- 13 A. Yes. I'm very confident that we're
- 14 breaking music first, before the webcaster
- 15 platforms. And, again, I think we're doing that and
- 16 opening that opportunity for a lot of independent
- 17 labels who, again, would never have a chance on
- 18 terrestrial radio.
- 19 And the thing about a lot of the
- 20 webcasters in digital platforms, the only way that
- 21 you can even get a new song to them is to go through
- 22 what is called a digital aggregator, someone like a
- 23 Tunecore. You have to submit your song into a pile
- 24 and then data is sent over to these digital
- 25 platforms. Good luck with that. That's not very,

- 1 very easy.
- 2 And at Music Choice, again, back to the
- 3 human curation, we have people working in the
- 4 Programming Department taking your phone calls,
- 5 taking your e-mails, and interacting. And so I
- 6 think that's why there is lots of examples in my
- 7 testimony where you see we're not only working with
- 8 major labels, we're opening up doors for independent
- 9 labels.
- 10 Q. And without getting into specific
- 11 numbers, because we're in an open session, what
- 12 kinds of investments does Music Choice have to make
- 13 in order to curate its audio channels this way?
- 14 A. We have to make significant investment in
- 15 programming, marketing, and creative and production.
- 16 So obviously you have to have experienced
- 17 programmers. So not only experts in their genre,
- 18 they also have to have relationships in the music
- 19 industry.
- You have to have people that can work
- 21 with the record labels. You have to have marketing
- 22 people that can execute and facilitate the marketing
- 23 that supports the air plays.
- 24 So in my testimony, I talk about how in
- 25 2013 we started doing more social media marketing.

- 1 That's a great example of us growing our resources
- 2 in that area to do -- to do more promotion.
- And the last part, creative production,
- 4 there is a lot in my testimony about custom
- 5 promotions that we do. We pay for all that
- 6 production when we partner with the record labels.
- 7 We have a studio and we facilitate the costs of
- 8 that.
- 9 So there is a tremendous amount of
- 10 investment to cover all of those areas, not counting
- 11 all the other shiny stuff you don't see that goes
- 12 with Music Choice.
- Q. Now, how does the reach of Music Choice's
- 14 audio channels compare to that of terrestrial radio?
- 15 A. Music Choice in most cases is larger than
- 16 or comparable to most major market radio stations.
- 17 And so one spin on Music Choice across the United
- 18 States is more impactful than getting air play on a
- 19 terrestrial radio station.
- 20 So in my testimony I talk about our
- 21 Today's Country channel. This is the channel that
- 22 has -- I am not sure if I can say the number -- but
- 23 --
- Q. Well, let's not say the number. But what
- 25 we could do is turn to tab 937.

- 1 A. Okay.
- Q. And maybe you can let us know if that
- 3 demonstrates some of what you are talking about,
- 4 without giving numbers and such.
- 5 A. So if everyone is on this page, you can
- 6 see here a chart that is comparing Music Choice's
- 7 country programming to some of the biggest
- 8 terrestrial country radio stations. And you can see
- 9 that our weekly audience in some cases is double the
- 10 size of some terrestrial radio stations in very
- 11 significant markets like Dallas, Houston, Los
- 12 Angeles, et cetera.
- So, yeah, we reach a very large audience.
- Q. And does social media play any role in
- 15 Music Choice's promotional activities?
- 16 A. Yeah. As I mentioned earlier in 2013, we
- 17 developed a social media marketing team. And social
- 18 media has become a huge complement to our audio
- 19 channel programming.
- 20 So in the same way that our on-screen
- 21 product has become a complement for giving you the
- 22 artist and title of the song, we now use social
- 23 media to engage our audience to let them know, hey,
- 24 this song is on Music Choice or here is new music
- 25 this week.

- 1 So we talk a little bit about Brand New
- 2 This Week. We actually have a social media hashtag
- 3 at Brand New This Week, where you can follow that on
- 4 social media.
- 5 And the other thing that we do with
- 6 social media as it ties back to our audio channels
- 7 is we will create conversations with actual artists
- 8 themselves in our fans. So there is exhibits in my
- 9 testimony where we talk about we're doing promotion
- 10 with an artist, Monday at 1:00 o'clock, and that
- 11 artist is going to talk about the inspiration behind
- 12 their songs.
- And a lot of that is promoted using the
- 14 platform across social media to enhance the
- 15 experience in our audio channels.
- Q. So you were talking about some of these
- 17 individual promotions, custom promotions that you do
- 18 for certain artists and recordings.
- 19 Why don't we take a look at tab 938.
- 20 JUDGE STRICKLER: Before we do that, can
- 21 we go to 937. Good afternoon, sir, by the way.
- 22 THE WITNESS: Good afternoon, Your Honor.
- JUDGE STRICKLER: I was just looking at
- 24 the source of the information. This is comparing
- 25 Music Choice's country reach to various radio

- 1 stations.
- 2 THE WITNESS: Yes.
- JUDGE STRICKLER: I was looking at the
- 4 legend at the bottom that says music channels. This
- 5 isn't restricted, I don't think. Music Choice
- 6 viewer study. Was this the audio or was this video
- 7 on-demand or something else?
- 8 THE WITNESS: This is just audio, Your
- 9 Honor.
- 10 JUDGE STRICKLER: So even though it says
- 11 "viewer study" it was an audio?
- 12 THE WITNESS: Yes, yes.
- JUDGE STRICKLER: Thank you.
- 14 BY MR. FAKLER:
- 15 O. Mr. Williams, if we turn back to
- 16 Exhibit 934 and take a look at that Ipsos OTX study.
- 17 Is that titled "Viewership Study"?
- 18 A. Yes, it is, Music Choice Viewership
- 19 Study.
- Q. Does that study, in fact, cover both
- 21 audio and video for Music Choice?
- 22 A. This study is for audio.
- Q. Audio only?
- 24 A. Yes.
- Q. Even though they call it viewership?

- 1 A. Yes.
- Q. So if we turn to tab 938. Can you tell
- 3 us a little bit why you included this document as an
- 4 exhibit to your testimony?
- 5 A. I included this document to my testimony
- 6 to highlight how we recap a promotion. So whenever
- 7 we are doing a custom promotion, we want to have
- 8 metrics of success to it. We want to be able to
- 9 demonstrate internally and externally that the
- 10 promotion reached the goals that were set by Music
- 11 Choice and in this case Five Finger Death Punch.
- So the recap here is walking you through
- 13 all the investment that we made in the promotion
- 14 across the music channels, the audience that we
- 15 delivered for the group in this case, and this is
- 16 something that we can use internally, but also the
- 17 record label can use to go back and measure, you
- 18 know, the promotion that they did with us.
- 19 Q. And if we turn to Exhibit 939, this is
- 20 this an answer of the Brand New This Week program
- 21 you were talking about before?
- 22 A. Yes, it is.
- 23 Q. And I think that you mentioned Brand New
- 24 This Week was an example of a type of promotion that
- 25 you do that has a tie in to social media?

- 1 A. Yes, it is.
- Q. So if we take a look at tab number 940.
- 3 Can you please tell me what this is?
- A. The tab here on 940, these are
- 5 reproductions of actual screen shots from social
- 6 media platforms where we are cross-promoting our
- 7 artist promotion from the audio channels back to
- 8 social media or from social media back to our audio
- 9 channels.
- 10 And in this case, this is a screen shot
- 11 of an artist actually thanking us for adding their
- 12 song on to our Brand New This Week playlist.
- 13 Q. And were you personally involved in
- 14 collecting these examples?
- 15 A. Yeah. Well, I collected these examples
- 16 from programming staff as part of my testimony, but
- 17 I am very familiar with this. So any time we do a
- 18 promotion like this, we recap this. We review it.
- 19 In the case of social media, a lot of times we're
- 20 doing it in realtime because this stuff is actually
- 21 really, really happening.
- So, yeah, this is stuff that I collected
- 23 from the programming staff and stuff that I
- 24 typically look at on a day-to-day basis when we're
- 25 doing promotions.

- 1 MR. FAKLER: Your Honors, at this time I
- 2 would like to offer Exhibit 940 into evidence.
- 3 MS. TURNER: Then, Your Honors, we object
- 4 to the admission of this exhibit. It is clearly
- 5 hearsay. We don't know if the artist themselves
- 6 wrote this or if their staff wrote it.
- 7 Mr. Williams admitted he doesn't receive
- 8 these in the ordinary course of business but he
- 9 collected them specifically for this proceeding and
- 10 from staff. He didn't collect them himself. So we
- 11 object to it on both those bases.
- MR. FAKLER: Your Honor, first of all, if
- 13 I may respond, SoundExchange waived any hearsay
- 14 objection to this exhibit. Hearsay was not listed
- 15 on the joint trial exhibit submission.
- So the hearsay, you know, isn't there at
- 17 this point. And I do believe that --
- 18 BY MR. FAKLER:
- 19 Q. Mr. Williams, you do see these on a
- 20 regular basis as part of your job, right?
- 21 A. Yeah. What I said previously, I see
- 22 these on a daily basis. Any time that we're doing a
- 23 promotion, these are actually happening in realtime
- 24 live on our social media platforms, not just the
- 25 artist's platforms. So, of course, I'm seeing them

- 1 in realtime because they are happening on something
- 2 that we're doing on the network. And I'm overseeing
- 3 the strategy for network.
- 4 O. But with respect to these particular
- 5 ones, you personally collected them from Music
- 6 Choice, they came from Music Choice's records.
- 7 Do you have any doubt as to what these
- 8 are, whether you know what these are?
- 9 A. I don't have any doubt to what these are.
- 10 And these came specifically from Music Choice.
- 11 JUDGE BARNETT: The objection is
- 12 overruled. 940 is admitted for whatever weight it
- 13 might have.
- 14 (Music Choice Exhibit Number 940 was
- 15 marked and received into evidence.)
- 16 MR. FAKLER: Thank you, Your Honor.
- 17 BY MR. FAKLER:
- 18 Q. Now, in your testimony you discuss
- 19 companies called BDS and Mediabase, right?
- 20 A. Yes.
- Q. So can you explain to us what those
- 22 companies are?
- 23 A. Sure. So BDS or Broadcast Data Systems
- 24 and Mediabase are third-party companies that track
- 25 air play of terrestrial radio stations and satellite

- 1 radio stations across the U.S., and in the case of
- 2 Mediabase, also in Canada.
- Q. And why is Mediabase and BDS reporting so
- 4 important?
- 5 A. BDS and Mediabase reporting are so
- 6 important because they are the chart of record, so
- 7 to speak, for air play across the country. They
- 8 actually capture the data points that the music
- 9 industry uses to determine chart placement across
- 10 every music format.
- And so when you hear something, you know,
- 12 you are watching the Grammy awards and somebody
- 13 says: Hey, I had a Number 1 record and I won a
- 14 Grammy. Well, it is coming from the charts. And so
- 15 BDS and Mediabase are critically important to the
- 16 music industry ecosystem because they are what
- 17 drives promotional efforts by the record labels.
- Q. And as between Mediabase and BDS, is any
- 19 one more important than the other?
- 20 A. Yeah, Mediabase is more important than
- 21 BDS. At this time Mediabase has been the most
- 22 adopted monitoring platform by all of the major
- 23 record labels. It is the one that they use on a
- 24 daily basis to monitor air play and to drive
- 25 promotions.

- 1 Q. Now, was Music Choice always tracked by
- 2 Mediabase and BDS?
- 3 A. No. Music Choice first got monitored by
- 4 BDS in 2001; and first started getting monitored by
- 5 Mediabase in 2013.
- Q. So starting with BDS, how did it come
- 7 about that Music Choice eventually got added to that
- 8 system?
- 9 A. Yeah. I was approached by Mark Tindle,
- 10 who at the time was the senior vice president and
- 11 general manager of BDS. And he was getting asked by
- 12 record labels how come Music Choice's air play was
- 13 not included in BDS monitoring?
- And so he did a survey of several music
- 15 executives, and it was determined that Music Choice,
- 16 much like radio, it should be added into the BDS
- 17 monitoring. And so in 2001 we started off with like
- 18 ten of our most radio-liked formats being monitored
- 19 by BDS.
- Q. And later on, how did it come about that
- 21 Music Choice got added to Mediabase?
- 22 A. Really the same way. So as I said,
- 23 Mediabase has over time kind of become the monitor
- 24 of records, become more popular than BDS. So after
- 25 proving our value on BDS, same scenario, record

- 1 labels wanted to have Music Choice's air play now
- 2 included in Mediabase because they saw air play as
- 3 being valuable.
- And so the question is why did they see
- 5 our air play being valuable? They see our air play
- 6 being valuable because, again, it is very hard to
- 7 get a song played on terrestrial radio. A record
- 8 label in any given week may have ten new songs
- 9 coming out in a format. Well, the way radio was
- 10 played, there is only a certain amount of spots
- 11 every week to add songs to a playlist.
- 12 And so there is too many songs and not
- 13 enough slots, you need to find other platforms to
- 14 play your songs on. And so they knew from BDS by
- 15 having Music Choice as part of the Mediabase
- 16 reporting platform that our spins would, one, start
- 17 credibility or start the story for a new record and
- 18 they would give other radio stations the incentive
- 19 to consider playing new music.
- 20 O. And what other music services are tracked
- 21 by Mediabase, for example?
- 22 A. It is only terrestrial radio and
- 23 satellite radio. So Music Choice and XM/Sirius
- 24 representing on the satellite radio side and the
- 25 rest is just terrestrial radio.

- 1 Q. So no other digital music services like
- 2 Pandora or Spotify?
- 3 A. No. There are no digital services
- 4 monitored by these platforms.
- 5 Q. And do you know how BDS and Mediabase
- 6 select which radio stations and which services to
- 7 track?
- 8 A. Yeah, they look at your market size and
- 9 your audience size, and, again, your impact on the
- 10 music industry ecosystem. They want to know that
- 11 your platform matters and so they actually add and
- 12 drop stations all of the time.
- And so it is very impressive that Music
- 14 Choice has been consistent since 2013. So the only
- 15 way they add radio stations is if they have enough
- 16 audience size and their air play is going to matter
- 17 to the record labels.
- 18 Q. How do the record companies use that
- 19 reporting from BDS and Mediabase in their
- 20 businesses?
- 21 A. They use it daily to drive their
- 22 promotional decisions. And so the way to think
- 23 about it is if a record label is starting to get air
- 24 play in a local market in Texas on a brand new
- 25 artist, they are likely going to make the decision

- 1 to shift marketing resources to that marketplace to
- 2 try to build more momentum.
- 3 So they use it as part of their marketing
- 4 and promotional analysis to determine how they are
- 5 going to invest their resources. And just quickly,
- 6 again, I think this is why Music Choice is valued on
- 7 that chart.
- When we play a song, we're a national
- 9 service. And so if you only have a terrestrial air
- 10 play in one or two markets and suddenly Music Choice
- 11 adds you to their playlist, now you have got 50
- 12 markets and now a record label can use that story to
- 13 help try to garner more air play.
- Q. And do the labels ever advertise the fact
- 15 that their songs have been added or increased on
- 16 Music Choice?
- 17 A. Yes, they do all the time. And so the
- 18 record labels will advertise in music industry trade
- 19 publications, e-mail blasts, you will see things
- 20 like here is the channels that are playing this
- 21 first. And they will actually call out Music Choice
- 22 by name and sometimes even take testimonials from us
- 23 about the air play.
- O. And if you take a look at tab 948, which
- 25 was an exhibit to your written testimony. Can you

- 1 tell me how you went about putting this, these
- 2 documents together and what they are?
- 3 A. Okay. First what these are, these are
- 4 actual advertisements that major record labels have
- 5 sent out to do a couple of things. One, in some
- 6 cases, they are announcing the record, the artist
- 7 and title, and then you will see here on the second
- 8 page, you are seeing early leaders, Music Choice,
- 9 KCSN.
- 10 So what they are saying to the entire
- 11 field of radio stations across the country is these
- 12 are the stations that are playing these songs first.
- 13 And so they want everyone to know that,
- 14 so they can use that to try to garner more air play.
- 15 Some of these other documents in here are what we
- 16 call tip sheets or hot sheets, where a record label
- 17 will e-mail out to a radio station or the Music
- 18 Choice information that might influence the way we
- 19 would program.
- 20 So I'm on the example for the artist
- 21 Chinx and the album "Welcome To JFK." There is no
- 22 page number associated but using this as an example,
- 23 you can see that the record label is advertising
- 24 obviously the artist and title, but they are also
- 25 telling you what radio stations are already playing

- 1 this song and how many times they are playing it.
- 2 And they are giving you a list of
- 3 accomplishments from the artists. They already have
- 4 22 million YouTube views. We're sending them on
- 5 tours, the fans love them, et cetera, et cetera.
- 6 The point is they are using this
- 7 advertisement to communicate a story about this
- 8 artist and this song that would influence Music
- 9 Choice to play the song, if we're not already
- 10 playing it.
- 11 Q. And in your time working at Music Choice,
- 12 have you seen these types of documents throughout
- 13 that whole time?
- 14 A. Yeah, I have seen these kind of documents
- 15 not only throughout my time at Music Choice, but
- 16 throughout my whole career. This is just part of
- 17 the promotional process that record labels undergo
- 18 when they are promoting a record on a daily or
- 19 weekly basis.
- Q. And what did you do to collect these
- 21 examples?
- 22 A. A couple of things. A couple of these
- 23 examples are directly to me that I received through
- 24 e-mail. Some of these examples I had my staff or
- 25 people on the programming staff collect from

- 1 industry trade magazines, e-mail, different sites.
- Q. And as you look at the document that you
- 3 had put together, do you have any doubt as to what
- 4 this is or your familiarity with it?
- 5 A. I'm very familiar with this. And I have
- 6 no doubt to what this material is at all.
- 7 MR. FAKLER: At this time I would offer
- 8 Exhibit 948 into evidence.
- 9 MS. TURNER: We would object on
- 10 foundation and hearsay grounds. Mr. Williams is not
- 11 on these e-mails. He doesn't -- he has not received
- 12 them himself. He doesn't receive them. He hasn't
- 13 received these specific e-mails in the regular
- 14 course of business. Even if he has seen documents
- 15 like these, that does not mean these specific
- 16 documents should be admitted.
- 17 JUDGE BARNETT: Mr. Fakler?
- 18 MR. FAKLER: Yes, Your Honor. First of
- 19 all, I believe that Mr. Williams certainly can
- 20 authenticate the documents. He is familiar with the
- 21 types of documents. He personally was involved in
- 22 retrieving them from Music Choice business records.
- 23 And with respect to the hearsay issue,
- 24 these are being offered, first of all, they are
- 25 independent speech acts. They are not offered for

- 1 the truth of facts asserted per se. They are
- 2 offered to demonstrate the fact that they are sent,
- 3 that, in fact, these record companies do advertise
- 4 spins on Music Choice.
- 5 So the point isn't whether or not they
- 6 are really were on this slide 29 X spins. The whole
- 7 point is these are independent speech acts which are
- 8 not considered hearsay.
- 9 JUDGE BARNETT: On that basis, Mr.
- 10 Fakler, 948 is admitted.
- 11 (Music Choice Exhibit Number 948 was
- 12 marked and received into evidence.)
- MR. FAKLER: Thank you, Your Honor.
- MS. TURNER: To clarify that's not for
- 15 the truth, correct?
- 16 JUDGE BARNETT: Not for the truth of the
- 17 matters asserted in these particular papers.
- 18 MS. TURNER: Thank you.
- MR. FAKLER: Thank you.
- 20 BY MR. FAKLER:
- Q. And, again, why do the labels go through
- 22 the trouble of advertising these plays on Music
- 23 Choice?
- A. Because they want to either, one, have us
- 25 start playing one of the songs that they are

- 1 advertising or they want to entice us to increase
- 2 the air play on one of the songs that we're already
- 3 playing. And, again, more air play is going to
- 4 create more awareness, it is going to create more
- 5 opportunity to monetize your music, whether it is
- 6 from the purchasing of music or increased streaming.
- 7 And so I think it is pretty known that
- 8 the more air play, the more exposure a song has, the
- 9 more revenue that they are going to generate.
- 10 Q. If we take a quick look at tab number
- 11 950.
- 12 A. 950?
- Q. Um-hum.
- 14 A. Okay.
- Q. Can you tell us what this document is?
- 16 A. This is an e-mail from a VP of promotions
- 17 that I know, John McMann from Atlantic Records, to a
- 18 director of programming at Music Choice, Nadine
- 19 Santos. And this is talking about air play support
- 20 that we gave for Coldplay.
- 21 And in this case John is giving Nadine an
- 22 update on how the song is doing. And he is thanking
- 23 her for us supporting the song. They were having a
- 24 lot of trouble with this song, even though it is
- 25 Coldplay. And we were one of the first outlets, not

- 1 only to jump on it and play it, but play it very
- 2 aggressively. And so John is thanking me again for
- 3 that support.
- Q. And you have personal knowledge of those
- 5 plays with Coldplay and the effect that it had?
- A. Yeah. I have personal knowledge of the
- 7 air play. I have personal knowledge of promotions
- 8 that we did with Coldplay during the course of this.
- 9 And I have personal knowledge and have interacted
- 10 with John McMann on a consistent basis.
- 11 Q. And you know that that's his e-mail
- 12 address, right?
- 13 A. Yes, it is.
- 14 Q. And you know Nadine Santos, right?
- 15 A. Yes.
- 16 Q. Who you got this e-mail from?
- 17 A. Yes.
- 18 MR. FAKLER: I would offer 950 into
- 19 evidence.
- MS. TURNER: Your Honors, we object again
- 21 on the same bases, this is hearsay. There is a
- 22 foundation problem. Mr. Williams is not on the
- 23 e-mail.
- 24 On the basis that Mr. Fakler is asserting
- 25 as grounds for foundation, we can admit any e-mail

- 1 he received from one of his coworkers, and I don't
- 2 know what purpose this serves other than the truth
- 3 of the matter asserted.
- 4 MR. FAKLER: Your Honor, I do think that
- 5 he has established that there is no question, there
- 6 is no serious objection to whether this really is
- 7 what it appears to be. It has various indicia of
- 8 reliability. That oftentimes can self-authenticate
- 9 documents, such as recognizable corporate e-mail,
- 10 addresses, and the like.
- 11 So I don't think there is really any
- 12 question as to whether this really is an e-mail that
- 13 came from Atlantic. On the other grounds, though, I
- 14 would say in addition to the fact that it is offered
- 15 for the fact of the thanking for the air play, which
- 16 goes to intent, which is hearsay exception, it is
- 17 also a statement by a party opponent, Atlantic
- 18 Records, who have had a witness testify in this very
- 19 case that nobody at Atlantic cares about Music
- 20 Choice or does promotion on Music Choice.
- 21 JUDGE BARNETT: Again, 950 is admitted
- 22 not for the truth of the matter but for whatever
- 23 weight anecdotal evidence such as this may have.
- MR. FAKLER: Thank you, Your Honor.
- 25 (Music Choice Exhibit Number 950 was

- 1 marked and received into evidence.)
- 2 BY MR. FAKLER:
- 3 Q. Now, Mr. Williams, have you ever been
- 4 asked by a record company to stop playing one of the
- 5 recordings or to lower the amount that you play the
- 6 recordings?
- 7 A. Never in my almost 30 plus year career
- 8 have I ever had anyone ask me to decrease the plays
- 9 or stop playing a song. That is not our practice at
- 10 all.
- 11 Q. Have you heard of them approaching
- 12 anybody else at Music Choice to ask for that?
- 13 A. No, no, I have not.
- Q. Now, do record label employees routinely
- 15 acknowledge the promotional impact of Music Choice
- 16 air play?
- 17 A. Yes, they do. Record labels acknowledge
- 18 our air play in several different ways. One is
- 19 obviously on a weekly basis, they are lobbying us
- 20 through whether it is e-mails, phone calls, personal
- 21 visits, to our office. They acknowledge the
- 22 importance of our air play.
- 23 And I think another way to consider that
- 24 is the fact that they are investing resources to
- 25 bring their artists to our studios. It takes time

- 1 and resources to move an artist around. And the
- 2 fact that they see Music Choice as a worthwhile
- 3 place to bring their artist, I think, is a good
- 4 example that they think it is important.
- 5 Q. Is there any particular department within
- 6 each record label that lobbies Music Choice for air
- 7 play on the channels?
- 8 A. Yes, Music Choice is lobbied by the radio
- 9 Promotions Department at record labels; same
- 10 departments that would work with terrestrial radio
- 11 stations in terms of lobbying for air play.
- 12 Q. And is that a separate team from the team
- 13 that works with digital services like Pandora and
- 14 Spotify?
- 15 A. Yes, it is. To my knowledge, most of the
- 16 record labels have digital promotional teams,
- 17 digital marketing teams that interact with digital
- 18 service because it is just a different platform and
- 19 really a different business model.
- 20 And so it is an entirely different group
- 21 of people.
- 22 O. And does Music Choice sometimes deal with
- 23 that group of people on the video side?
- A. Not on a routine basis. You know, you
- 25 may have someone because videos are delivered

- 1 sometimes in that format, where someone may call to
- 2 check on a video, but not as respect to the audio
- 3 service.
- 4 O. Now, with respect to the team at the
- 5 labels that work on radio promotions, the ones who
- 6 actually deal with Music Choice on a regular basis,
- 7 is there any connection between that team and the
- 8 corporate legal team at the parent company?
- 9 A. Well, let me first say in my role I have
- 10 the opportunity to work with both the corporate side
- 11 of the record labels and the promotional side of the
- 12 record labels. And to my knowledge you couldn't
- 13 find two areas of one company that are further
- 14 apart.
- I have had experience where I have talked
- 16 to people on the promotional side about something I
- 17 might be working with someone in the corporate side,
- 18 they don't even know the people, they don't know
- 19 their roles. They are very, very, very separate
- 20 with the corporate side being very disconnected from
- 21 what happens on the day-to-day basis as it relates
- 22 to artist promotion and air play.
- 23 Q. And as far as the lobbying of Music
- 24 Choice for air play, how does that take place? Does
- 25 it take place through e-mail, on phone calls, in

- 1 person? How does it work?
- 2 A. It takes place in various ways. It takes
- 3 place through e-mails. It takes place through phone
- 4 calls. It takes place through in-person visits to
- 5 our studios. It takes place at invites, record
- 6 labels will invite us out to events that are not for
- 7 the public where they are showcasing their new
- 8 artist.
- And they will bring us out to hear a new
- 10 artist perform before it is available to the public
- 11 so that they can lobby us on playing music from the
- 12 artist.
- I mean, there is various approaches that
- 14 they take in lobbying us to get air play.
- 15 O. And if we take a look at Exhibits 959
- 16 first.
- 17 A. Okay.
- 18 Q. Then if we look at 967. And then 969.
- 19 Are these examples of e-mail lobbying activity that
- 20 you included as exhibits to your direct and rebuttal
- 21 testimony?
- 22 A. Yes. These are all exhibits of e-mail
- 23 lobbying and exhibits that I'm familiar with. I am
- 24 not sure if it came across when I talked about my
- 25 role in the company, but a lot of times in this

- 1 e-mail lobbying, you are seeing the record label
- 2 representative asking for a change, for us to do
- 3 something to our service, whether it is increasing
- 4 plays or adding a song.
- In my role in programming strategy, I'm
- 6 involved with that process of helping to make those
- 7 decisions. And so I'm very familiar with this
- 8 e-mail and I'm very familiar with these practices.
- 9 Q. And do the programmers often come to you
- 10 with these e-mails and say I'm being asked for more
- 11 plays, what should we do?
- 12 A. Exactly. And that's what I was trying to
- 13 articulate. Oftentimes the programmers come to me
- 14 and we actually have a conversations about how we're
- 15 going to handle these requests. Just because
- 16 someone makes a request doesn't mean that we always
- 17 comply.
- 18 And so sometimes we have to be thoughtful
- 19 about how we're going to respond to these requests.
- 20 So I'm often on a daily basis part of that process
- 21 that you are seeing here.
- 22 O. To create these exhibits, you personally
- 23 reached out to these programmers and collected these
- 24 example e-mails to include with your testimony?
- 25 A. Yes, I did.

- 1 MR. FAKLER: Your Honors, I would offer
- 2 into evidence Exhibits 959, 967, 969 on the same
- 3 basis as being not for the truth of any facts
- 4 asserted, merely to demonstrate lobbying activity.
- 5 MS. TURNER: And recognizing that they
- 6 are not for the truth of the matter asserted, we
- 7 still wanted to put on the record we do object to
- 8 the admission of these exhibits on the same bases,
- 9 that Mr. Williams is not on any of these e-mails.
- 10 It appears that many e-mails from Music Choice,
- 11 other Music Choice personnel are trying to be moved
- 12 in through this particular witness, even though he
- 13 has no special connection to them.
- 14 JUDGE BARNETT: Thank you. 959, 967, 969
- 15 are admitted not for the truth of the matter
- 16 asserted.
- 17 (Music Choice Exhibit Number 959, 967,
- 18 969 were marked and received into evidence.)
- 19 BY MR. FAKLER:
- 20 O. Do the record labels also send e-mails to
- 21 Music Choice thanking them for playing the music on
- 22 Music Choice?
- 23 A. Yes, they do on a pretty routine basis.
- 24 O. And I think we already saw one of those
- 25 in Exhibit 950, but if you turn to Exhibit 943 and

- 1 949.
- 2 Are these examples of those sorts of
- 3 "thank you" e-mails that you put together in the
- 4 same manner that you put together the various other
- 5 exhibits we have been discussing?
- 6 A. Yes.
- 7 MR. FAKLER: I would offer Exhibits 943
- 8 and 949 into evidence.
- 9 MS. TURNER: Your Honors, we have the
- 10 same objections again. Thank you.
- JUDGE BARNETT: Objections noted. 943
- 12 and 949 are admitted on the same basis; that is, not
- 13 for the truth of the facts asserted therein, but to
- 14 establish the fact of the communications.
- 15 (Music Choice Exhibit Numbers 943 and 949
- 16 were marked and received into evidence.)
- 17 MR. FAKLER: Thank you, Your Honor.
- 18 BY MR. FAKLER:
- 19 Q. Now, with respect to these various
- 20 e-mails we're looking at, that we have been looking
- 21 at, did Music Choice ask the record companies to
- 22 send any of these?
- 23 A. No.
- 24 Q. And do you -- you have received countless
- 25 numbers of e-mails just like these, right?

- 1 A. Yeah. I receive countless number of
- 2 e-mails like this all the time. I believe there is
- 3 some actually in the exhibit related to the Chris
- 4 Brown custom promotion. This is a daily part of my
- 5 job at Music Choice.
- Q. And when you receive these e-mails, is it
- 7 your understanding that the record companies are
- 8 just sending these to be polite?
- 9 A. No. I think the record companies are
- 10 sending this as a matter of course of doing business
- 11 with us. And in many cases, are partners with us.
- 12 So it is not about being polite. It is an ongoing
- 13 conversation and communication. It is not just one
- 14 e-mail and done.
- 15 Q. And you also mentioned plaques that the
- 16 record companies send over to Music Choice?
- 17 A. Yes. So the record companies, as, you
- 18 know, what I would say are closing acknowledgment to
- 19 Music Choice, if we participated in the air play and
- 20 promotion of a label project that achieves a certain
- 21 level of success, let's say it sells 1 million
- 22 units, they will acknowledge us by giving us a
- 23 commemorative plaque to acknowledge that. I just
- 24 received two plaques last week for some songs that
- 25 we played that sold a million copies.

- 1 And so it is a very common practice that
- 2 has been happening for the entirety of the time I
- 3 have been with Music Choice.
- 4 O. And does Music Choice ask for these
- 5 plaques?
- A. No, we don't. They just show up in the
- 7 lobby. I have no clue.
- 8 Q. And with respect to the lobbying activity
- 9 that we have been talking about, let's start with
- 10 the phone calls. About how many phone calls a week
- 11 does the entire Music Choice programming staff get
- 12 for lobbying?
- 13 A. We get hundreds of calls a week. We have
- 14 multiple formats of music with multiple programmers.
- 15 And between major labels, independent labels, our
- 16 phones are constantly ringing.
- 17 In fact, they can ring so often that we
- 18 actually will set specific days and times to
- 19 actually receive these calls to actually manage the
- 20 process. And in most cases the record labels will
- 21 adhere to that so they know that Monday or Tuesday
- 22 is record call day. And they will call us between
- 23 certain hours of the day to communicate what their
- 24 priorities are for the week. And that's how
- 25 promotion works, not just at Music Choice, across

- 1 the entire industry.
- 2 Q. And how many e-mails a week would you
- 3 estimate that Music Choice gets lobbying for air
- 4 play?
- 5 A. Thousands, by the minute. Record
- 6 companies are in non-stop promotion mode when it
- 7 comes to pushing air play for their artists up the
- 8 charts.
- 9 Q. Based on your experience being on the
- 10 receiving end of this lobbying activity, is it
- 11 possible that the marketing and promotional
- 12 employees are only looking to increase the PSS
- 13 royalty that the record company is getting, with
- 14 that increased air play?
- 15 A. No. The marketing and promotional people
- 16 probably don't even know what a PSS royalty is. It
- 17 is just not what they do. And they are focused on
- 18 air play and promotional support for whatever artist
- 19 and projects they are assigned during that time
- 20 period.
- 21 Again, as I stated earlier, I have had
- 22 the opportunity to work on the corporate side of
- 23 labels and also the promotional side. And there is
- 24 a clear line drawn where the typical promotion
- 25 executive that we work with is not knowledgeable and

- 1 probably doesn't even know this is happening today,
- 2 for example.
- 3 Q. And is this lobbying activity widespread
- 4 across pretty much all labels or is it specific to
- 5 only certain labels?
- 6 A. Lobbying is widespread across all of the
- 7 major labels and all of the resourced independent
- 8 labels are lobbying on a weekly basis, daily basis
- 9 to get their songs played.
- 10 Q. And what percentage of Music Choice's
- 11 audio channel programming comes from independent
- 12 labels that are not distributed by the Majors?
- 13 A. About 50 percent of our programming comes
- 14 from independent record labels. Again, we are a
- 15 music platform that gives independent record labels
- 16 an opportunity to get exposure on a national level.
- 17 We have channels that are outside of just
- 18 the mainstream radio formats like metal rock, for
- 19 example. You can't get that on a terrestrial radio
- 20 station.
- 21 Most of those formats are covered by
- 22 independent labels. So they turn to us to get air
- 23 play.
- Q. Now, how many different independent
- 25 labels, again, that aren't distributed by the Majors

- 1 are played on Music Choice?
- 2 A. It is upward 3500 plus independent labels
- 3 that have product on Music Choice.
- 4 O. Is that 3500 all of the labels or the
- 5 label groups? Because sometimes there is more than
- 6 one label owned by the same --
- 7 A. Yeah, in some cases, you may have an
- 8 independent label that may have a distribution deal
- 9 with a major label, but they are still independent
- 10 in the idea that they own their master recordings.
- 11 Their master recordings are not owned by the major.
- 12 They are just using them for distribution.
- Q. Now, does Music Choice's onscreen display
- 14 have any impact on its promotional effect?
- 15 A. Yes. Music Choice's on-screen display, I
- 16 think, has a huge impact on promotion. Again, I
- 17 stated earlier that it is educating consumers in
- 18 creating awareness for their products that the
- 19 artists are having played on our service.
- We actually dedicate about 35 percent of
- 21 our promotional inventory to the record labels to
- 22 promote their artists and songs across our service.
- Q. Do you mean on-screen advertising?
- A. On-screen advertising at no charge, about
- 25 35 percent of our service is used to promote their

- 1 songs.
- 2 And that doesn't necessarily include
- 3 things that we talked about earlier like Brand New
- 4 This Week. We're creating custom advertising and
- 5 creating awareness for those.
- 6 Q. And has the on-screen display changed
- 7 during the time that you have been at Music Choice?
- 8 A. Yeah, it has. It has actually become
- 9 more robust. We have been able to do more
- 10 integration with artist images. We have been able
- 11 to do integration with social media as we talked
- 12 about. We're constantly investing in the on-screen
- 13 interface to make it more engaging to consumers.
- 14 Q. Has the recent change in -- and without
- 15 getting into specific details because we're in open
- 16 testimony -- but has the recent change in Music
- 17 Choice's financial performance slowed down the pace
- 18 of those improvements?
- 19 A. Yes, it has. I mean, we haven't been
- 20 able to implement a lot of the product development
- 21 ideas that we have for that product because some of
- 22 the challenges that we have. And so there are other
- 23 things that we would like to bring to market that we
- 24 think would actually help and enhance record labels'
- 25 opportunity to monetize their content for music.

- 1 Q. Now, you discuss a number of the custom
- 2 promotions that Music Choice has done, examples for
- 3 various artists recordings. And we won't go into
- 4 all of those in detail. They are in your written
- 5 testimony and time is getting short.
- But, in general, do these custom
- 7 promotions ever include any additional air play on
- 8 the audio channels as part of their promotion?
- 9 A. Yeah, the big leap for all of our custom
- 10 promotions is the audio channels. And so the way
- 11 that we achieve that when we commit to a promotion,
- 12 we're going to enhance the air play for the artist
- 13 and label.
- 14 For example, record labels will give us a
- 15 grant of right against the DMCA, for example, to
- 16 play a song every hour on the hour. And they have
- 17 given us the right to play the entire album at a
- 18 given time. So we're doing these custom promotions.
- 19 We are using the audio channels as the flagship to
- 20 reach the most amount of eyeballs that we can to
- 21 help drive the promotion.
- 22 Q. And Music Choice, has Music Choice done
- 23 these sorts of custom promotions for both
- 24 established artists and up-and-coming artists?
- 25 A. Yeah. I mean, we do these promotions

- 1 with the major labels. We do them with
- 2 independents. There is actually a really good
- 3 example in my exhibit, I talk about an artist named
- 4 Rich Homie Quan that was signed to a record label
- 5 called Think It Game.
- 6 We were actually the first media platform
- 7 to play his music before terrestrial radio. And
- 8 from that in 2015 he actually ended up having the
- 9 most played song on terrestrial radio on the format
- 10 for that year, the most popular song. And recently
- 11 he just signed a record deal with a major label.
- 12 So he actually went from an independent
- 13 label, he was able to take that success and turn
- 14 that into a signing with a major label. He is now
- 15 on Capitol Records.
- 16 And so I actually think that's a great
- 17 example of where we're using our platform, giving an
- 18 independent label an opportunity because of their
- 19 creativity, they found a huge amount of success, and
- 20 they were able to parlay that into a deal with a
- 21 major label.
- Q. And how about an example of a big star
- 23 that has also had successful promotion with Music
- 24 Choice?
- A. Yeah, there is example in here where we

- 1 worked with Chris Brown, who is a recording artist,
- 2 on RCA Records. His management and the label
- 3 actually came to us. He wanted to promote his new
- 4 album during the Christmas holiday.
- 5 So they actually granted us the right to
- 6 air five songs from his album that were never
- 7 released to the public before any terrestrial radio
- 8 station on our service.
- 9 So we took one of our channels and
- 10 rebranded it Chris Brown Week and actually gave him
- 11 an entire week of programming.
- 12 And I think the other part that was
- 13 interesting about that promotion, we were actually
- 14 also given custom URL links to iTunes that enabled
- 15 the record label to generate revenue from sales
- 16 through our social media promotion that is tied back
- 17 to our audio channels. And they actually did see
- 18 some downloads in sales from that promotion.
- 19 So that's a great example of someone that
- 20 is an established superstar that was actually
- 21 willing to work with Music Choice in a way that was
- 22 much different than they would work with terrestrial
- 23 radio or any other TV network.
- Q. Now, with respect to these custom
- 25 promotions, does Music Choice get any benefit from

- 1 these custom promotions?
- 2 A. Of course we see some benefit. We're
- 3 engaging our customer base with programming and
- 4 promotion, but the benefit really goes both ways
- 5 between Music Choice and the record labels.
- We're getting the benefit, you know,
- 7 through the term of the promotion, which typically
- 8 is a week or two weeks, but once we invest that
- 9 marketing and promotion and helping to build the
- 10 brand of that artist, we're helping to build the
- 11 brand of that song or rather the popularity of that
- 12 song, the record labels are benefitting long after
- 13 us in probably, again, Rich Homie Quan, going back
- 14 to that quickly, that's a great example of we're not
- 15 benefitting from him being now on a major label.
- 16 Q. And is there any reason, does the
- 17 promotional -- well, should I say does the fact that
- 18 Music Choice gets some benefit out of these
- 19 promotions, does that in any way decrease the value
- 20 that the labels get out of the promotions?
- 21 A. No, not at all. I don't think it is
- 22 devaluing the promotion at all. Music Choice is one
- 23 part of the puzzle. It is not substitutional.
- And so the promotion that we're giving
- 25 them is adding value to their entire promotional

- 1 effort that they have at the time.
- Q. And when the record companies are
- 3 promoting their recordings to Music Choice, do they
- 4 promote their entire catalogue all at once or do
- 5 they do promotions that are related to specific
- 6 artists or specific recordings?
- 7 A. Typically to specific artists and typical
- 8 recordings. One is called a single, one single at a
- 9 time.
- 10 Q. Right. Now, let's talk about Atlantic
- 11 Records a little bit in your rebuttal testimony.
- JUDGE BARNETT: Before we go there, Mr.
- 13 Fakler, we're going to take our afternoon recess.
- MR. FAKLER: Gee whiz, yes.
- 15 JUDGE BARNETT: 15 minutes.
- 16 (A recess was taken at 3:26 p.m., after
- 17 which the hearing resumed at 3:47 p.m.)
- JUDGE BARNETT: Please be seated. Mr.
- 19 Fakler?
- MR. FAKLER: Thank you, Your Honor.
- 21 BY MR. FAKLER:
- Q. Mr. Williams, let's talk very briefly
- 23 about Atlantic and your written rebuttal testimony.
- 24 Did you read Mr. Kushner's written direct testimony
- 25 in this proceeding?

- 1 A. Yes, I did.
- Q. And has Mr. Kushner ever been personally
- 3 involved in any of Atlantic's dealings with Music
- 4 Choice regarding air play or promotions?
- 5 A. No, Mr. Kushner has never been involved
- 6 with any promotional activity between Music Choice
- 7 and Atlantic Records.
- 8 Q. And did you have any reaction to Mr.
- 9 Kushner's claim that Atlantic does not view Music
- 10 Choice as a major outlet for Atlantic's music?
- 11 A. I was very, very surprised when I read
- 12 his comment. We have been working with Atlantic
- 13 Records strategically since 2006 on various artist
- 14 promotions across our music channels with some of
- 15 their biggest stars.
- 16 Just most recently one of the biggest
- 17 stars on their label is Ed Sheeran, actually came
- 18 into our studios in New York City and did two
- 19 exclusive performances for us by request of Atlantic
- 20 Records prior to release of his album.
- 21 And, in addition to that, Atlantic
- 22 Records gave us the rights to record that
- 23 performance and use it across our network. So it
- 24 doesn't really add up that, you know, we don't have
- 25 a relationship with Atlantic Records as it relates

- 1 to promoting their artists.
- O. And has Atlantic Records, their radio
- 3 promotion people, have they actively lobbied Music
- 4 Choice for air play?
- 5 A. Atlantic Records' radio promotion team
- 6 has been actively lobbying us for years now to play
- 7 their records in the same way we have talked about
- 8 earlier here in my testimony, phone calls, e-mails,
- 9 in-office visits.
- 10 I mean, I was invited out to one of their
- 11 events recently for one of their artists where all
- 12 their top executives were there. And the purpose of
- 13 me being there was about promotion.
- Q. And does Atlantic's lobbying for air play
- 15 on Music Choice, is it any less than any of the
- 16 other major labels?
- 17 A. No. All the record labels are
- 18 aggressive. And Atlantic is equally aggressive in
- 19 their attempt to get their artists on. Again, I
- 20 think the Ed Sheeran we talked about is a great
- 21 example.
- 22 Another one of their biggest stars is
- 23 Bruno Mars, who performed at the Superbowl recently.
- 24 They brought him to our office to do promotion. And
- 25 so they are very active with us.

- 1 Q. So they also do these custom promotions
- 2 with Music Choice.
- 3 With respect to artist visits as you are
- 4 discussing with Ed Sheeran, does that lead to
- 5 additional air play on the audio channels as well?
- A. Yes, it does. As part of that, we're
- 7 featuring that artist's music across our audio
- 8 channels to amplify the promotion that we're doing
- 9 with Atlantic.
- 10 O. And is that true for all artist visits
- 11 for all labels? Does it always lead to increased
- 12 air play on the audio channels?
- 13 A. Yeah, any time we're working with a
- 14 record label on a promotion, we're working together
- 15 to bring greater awareness and we're playing the
- 16 song more on audio in support of that.
- Q. And you provide a more comprehensive list
- 18 and examples of these various lobbying activities
- 19 and custom promotions in your written testimony from
- 20 Atlantic, right?
- 21 A. Yes, I do.
- 22 MR. FAKLER: That concludes my direct
- 23 examination. Thank you.
- JUDGE BARNETT: Thank you, Mr. Fakler.
- 25 Mr. Rich, I presume there is no cross from --

- 1 MR. RICH: That's correct, Your Honor.
- JUDGE BARNETT: Thank you.
- 3 Ms. Turner?
- 4 CROSS-EXAMINATION
- 5 BY MS. TURNER:
- 6 Q. Hi. I am Kendall Turner representing
- 7 SoundExchange and the other Copyright Owners and
- 8 artists, Mr. Williams. Hi.
- 9 A. Hello.
- 10 Q. If you can open that binder we just gave
- 11 you. Behind the first tab should be a copy of your
- 12 written direct testimony. And if you can just turn
- 13 to page 6 of that, please.
- 14 You state there that in order to
- 15 differentiate its service -- and this is something
- 16 you talked about with Mr. Fakler as well -- Music
- 17 Choice must add significant creative inputs
- 18 including the curation of its audio channels. Do
- 19 you see that? It is like starting in the second
- 20 line on page 6.
- 21 A. Yes, I see that.
- Q. And when you talk about differentiation,
- 23 you mean differentiation from your competitors,
- 24 correct?
- A. Well, we mean to differentiate ourselves

- 1 in the marketplace on TV, not just in the context of
- 2 our competitors, Music Choice is primarily a TV
- 3 platform delivering music on television. So --
- 4 Q. Right.
- 5 A. -- we have to make investments to make
- 6 something that you listen to engaging for a TV.
- 7 Q. Right. So you would be trying to
- 8 differentiate yourself from, among other entities,
- 9 Stingray?
- 10 A. Well, we're differentiating ourselves
- 11 from TV but, yes, we would be -- we would want to be
- 12 differentiated from Stingray, that is correct.
- Q. And when you say that Music Choice
- 14 differentiates itself, you mean through curation,
- 15 you mean that the curation that Music Choice offers
- 16 is a central part of its value proposition, that's
- 17 what sets it apart?
- 18 A. Yeah. I think curation, I think our
- 19 on-screen experience, I think our channel lineup.
- 20 And so, for example, Music Choice is a U.S.-based
- 21 product. Stingray is a Canadian-based product. And
- 22 so our channel lineup is different.
- Q. Right. And we will talk about the
- 24 on-screen display too.
- 25 But in terms of curation, if you could

- 1 just turn to 985, which is the next document in your
- 2 binder.
- 3 A. Okay.
- 4 Q. This has already been admitted into
- 5 evidence. And this is a printout from Stingray's
- 6 website, correct?
- 7 A. Yes, this is the first time I have seen
- 8 it but, yes, that's what it appears to be.
- 9 Q. And do you see at the bottom it says that
- 10 Stingray offers thousands of channels hand-curated
- 11 by a team?
- 12 A. Yes, I do.
- Q. Okay. So, in other words, Stingray, like
- 14 Music Choice, curates the music by hand that it
- 15 offers to consumers, correct?
- 16 A. No, they don't.
- 17 Q. So this is incorrect?
- 18 A. If you go to Stingray's mobile device
- 19 app, and this is a mobile device app advertisement,
- 20 it is not a television advertising --
- 21 Q. Right.
- 22 A. -- they have a series of playlists that
- 23 are constructed using data from a company that
- 24 delivers metadata. And those playlists are
- 25 generated from algorithms. So they have a program

- 1 called Vibes Channels. If you want to create a mood
- 2 in your house if you are having a party, you pick a
- 3 Vibe Channel based upon a genre, a mood, and a
- 4 tempo.
- 5 O. So there are some -- so --
- A. Well -- well, the point I am making is
- 7 that they are using an algorithm to generate their
- 8 playlists. When I referenced curation in my
- 9 testimony, it related to human thought, human
- 10 programming, and our programming philosophy.
- It is very, very different, exactly what
- 12 I was talking about in my testimony, this is very,
- 13 very different. This is a connected digital device
- 14 using an algorithm to generate a playlist.
- 15 Q. So I am not disputing that sometimes
- 16 Stingray might use algorithms, but this document
- 17 suggests they do engage in some level of human
- 18 curation; is that correct?
- 19 MR. FAKLER: Your Honor, I would like to
- 20 object to the question, based on what is represented
- 21 in this document, because Mr. Williams has said he
- 22 has never seen this document before and he has
- 23 testified based on his personal experience with the
- 24 Stingray product.
- JUDGE BARNETT: Sustained. The document

- 1 speaks for itself.
- 2 BY MS. TURNER:
- O. Can we talk about Music Choice's
- 4 on-screen displace?
- 5 JUDGE STRICKLER: Before you go on,
- 6 counsel, I want to make sure we have a complete
- 7 document here. I recognize the first page says it
- 8 is at 1 of 3 and the next page says 2 of 3. Perhaps
- 9 I am missing.
- 10 At the very bottom where you were
- 11 questioning the witness it says "thousands of
- 12 channels hand curated by a team of" -- and I, with
- 13 great anticipation, turned the page and I couldn't
- 14 figure out --
- MS. TURNER: It does appear to be cut
- 16 off. You are correct.
- 17 JUDGE STRICKLER: So we don't know it is
- 18 a team of -- jackals?
- MS. TURNER: We don't know the answer. I
- 20 don't know.
- 21 (Laughter)
- MS. TURNER: Good question. We can
- 23 substitute a new version, if you like.
- 24 BY MS. TURNER:
- Q. So you mentioned Music Choice's on-screen

- 1 displays is another part of its value add. If you
- 2 could turn to page 11 of your written direct
- 3 testimony now, please.
- 4 A. Okay.
- 5 Q. You will see a header B. And in the
- 6 second sentence under that header you explain that
- 7 the on-screen display that Music Choice offers
- 8 features key marketing information, such as the
- 9 artist's name and album title, artist facts, album
- 10 artwork, artist images. Do you see that?
- 11 A. Yes, I do.
- 12 Q. Great. Now, Stingray has on-screen
- 13 displays as well on AT&T U-verse, correct?
- 14 A. I have never seen this product on AT&T
- 15 U-verse.
- 16 Q. Do you know if Stingray has an on-screen
- 17 display?
- 18 A. Yes, I do.
- 19 Q. And that on-screen display reflects the
- 20 artist name and album title?
- 21 A. Yes, it does.
- 22 Q. And it also reflects album artwork?
- 23 A. That I'm not aware of.
- Q. Okay. And do you know about artist
- 25 images or artist facts?

- 1 A. That I'm not aware of.
- Q. Okay.
- 3 A. But I would say that our artist facts are
- 4 proprietary to us.
- 5 Q. Right. There might be different artist
- 6 facts. Of course you have your own.
- 7 A. Right.
- 8 Q. So if we can now turn to another topic
- 9 and just turn to the next page, page 12 of your
- 10 written direct testimony. And you talked about this
- 11 a little bit with Mr. Fakler as well.
- 12 You mentioned that Today's Country
- 13 reaches more people than many popular terrestrial
- 14 radio stations, correct?
- 15 A. Yes.
- Q. And the number is restricted, so if we
- 17 could -- yeah.
- 18 Now Today's Country is one of Music
- 19 Choice's most popular stations, correct?
- 20 A. Yes, it is.
- 21 O. And most -- that means that most of Music
- 22 Choice's other channels would have a lower
- 23 listenership, correct?
- A. You mean amongst the 50 channel lineup?
- Q. Yeah.

- 1 A. Or are you talking about the channels
- 2 that are monitored by Mediabase? It is two separate
- 3 things. So most of the formats that we have that
- 4 are in comparison to terrestrial radio, like
- 5 mainstream pop, hot AC, hip-hop, and R&B are
- 6 actually larger.
- 7 Q. They are larger, okay.
- 8 So -- but if you can turn to 937, which
- 9 is also in that binder, but you also looked at with
- 10 Mr. Fakler earlier as well.
- 11 A. Okay.
- 12 Q. So it has already been admitted into
- 13 evidence.
- 14 A. Okay.
- 15 Q. So you are saying that pop has higher
- 16 listenership?
- 17 A. Yeah, well in this binder you are seeing
- 18 Today's Country, which is the equivalent of
- 19 mainstream country at terrestrial radio. You are
- 20 seeing Country Hits, which is not really a
- 21 terrestrial radio format.
- 22 Country Hits is a catalogue-based channel
- 23 that merely plays what we call recurrent songs or
- 24 you would call older songs. And Pop Country is not
- 25 a terrestrial radio format. That's a format that we

- 1 created from our research that combines the best
- 2 elements of pop music and country music on one
- 3 channel. You can't find that on --
- 4 Q. Right, there is not a comparable
- 5 terrestrial radio station?
- 6 A. Right, right.
- 7 Q. But Today's Country you are saying is one
- 8 of the most popular channels that Music Choice
- 9 offers?
- 10 A. Yes, it is. I said that.
- 11 Q. And I just have a few questions about
- 12 this graph. So if this is one of the most popular
- 13 stations that Music Choice offers, do you know how
- 14 many channels Music Choice offers that are less than
- 15 these popular radio stations, have viewership less
- 16 than these popular radio stations?
- 17 A. If I was looking at our, judging this off
- 18 our core 50 channel lineup, there is probably 30 to
- 19 35 channels that have smaller audience than this on
- 20 a weekly basis.
- 21 Q. Okay. Thanks.
- 22 And last question about this document.
- 23 If you could look at the footer, which I think Judge
- 24 Strickler had asked about earlier, you will see that
- 25 the data for the Music Choice channels are from July

- 1 and the data for the terrestrial radio stations are
- 2 from December.
- 3 A. Yes.
- 4 Q. Do you know if listenership has a
- 5 seasonality? Is it higher in the summer?
- 6 A. Listenership does historically have a
- 7 seasonality. It depends on the platform, whether it
- 8 is higher in the summer. And in this case Nielsen
- 9 is using December.
- 10 And so actually if you look at
- 11 terrestrial radio listening during the holiday
- 12 season, it is actually higher. And so it is pretty
- 13 common in most studies that are out there.
- Q. Okay. But we don't -- we don't actually
- 15 know if July and December are necessarily comparable
- 16 for Music Choice to terrestrial radio?
- 17 A. No, we don't. We don't know that.
- 18 Q. Okay. I want to talk now a little bit
- 19 about Music Choice's promotional value. If you
- 20 could turn to page 12 of your written direct
- 21 testimony again.
- 22 At the very bottom to the top, you talk
- 23 about how artists and record labels continue to
- 24 benefit from Music Choice initiatives.
- 25 A. On page 12?

- 1 O. Yeah. It is at the sentence that carries
- 2 from 12 to 13. If you don't see it --
- 3 A. I'm sorry.
- Q. I mostly want to talk about you give by
- 5 way of illustration the Five Finger Death Punch
- 6 example you had talked about earlier.
- 7 A. Okay.
- 8 Q. And you chose this example because you
- 9 think it is especially indicative of Music Choice's
- 10 promotional value, correct?
- 11 A. Yes.
- 12 Q. And could you please turn to page or to
- 13 Exhibit 938. There is a little purple tab that is
- 14 the page that I would like to talk about.
- 15 A. Okay.
- 16 Q. And do you see the second sentence says
- 17 that Music Choice felt that if it had been allowed
- 18 to premier this album of Five Finger Death Punch the
- 19 same day as Pandora and Sirius XM, it would have had
- 20 a higher level of engagement. Do you see that?
- 21 A. Yes.
- Q. Who didn't allow you?
- A. Well, this promotion is not billed as an
- 24 exclusive promotion. It is billed as a Five Finger
- 25 Death premier. And so we're premiering this

- 1 promotion on our platform. I think what our recap
- 2 is saying is if we were first to the marketplace, we
- 3 would have been the first one to, to draw attention
- 4 to say that we have something.
- I don't know that the situation is who
- 6 allowed us to or that we were in competition. I
- 7 don't think either one of these platforms, Pandora
- 8 and Sirius XM, had an exclusive. It is just a
- 9 matter of whether they were able to put the
- 10 promotion on air.
- 11 Q. So they did -- but Pandora and Sirius XM
- 12 did premier the album before Music Choice?
- 13 A. Yeah, which is, which is typical. And so
- 14 --
- 15 O. So the band or their label made the
- 16 decision that they would rather premier on these
- 17 services instead of Music Choice?
- 18 A. No, I don't know that. I don't know that
- 19 they consciously said hey, we want to do this on
- 20 these platforms. It could just be when the
- 21 promotion came together. I don't know that it is
- 22 because one was preferred or other.
- I don't even know the elements of what
- 24 Pandora and Sirius XM did, but, again, those are two
- 25 very different platforms. Pandora being a digital

- 1 platform --
- Q. But it looks like if the band had wanted
- 3 to premier on Music Choice before Pandora and Sirius
- 4 XM, it would have been able to?
- 5 A. Can you say that again?
- Q. If the band had wanted to premier on
- 7 Music Choice before Pandora and Sirius XM, it would
- 8 have been able to, correct?
- 9 A. Yeah, we don't control their recordings.
- 10 It is their decision who they want to do that with.
- 11 Q. And Five Finger Death Punch, not the most
- 12 prominent band in the marketplace?
- 13 A. I'm not sure what you mean by that.
- Q. It is not a household name? It is not
- 15 like Adele or Taylor Swift?
- 16 A. See, we can't really look at things just
- 17 in that way. Music Choice has 50 different channels
- 18 of genres in music. And we have consumers that are
- 19 passionate about each and every genre of music.
- 20 I'm sure that the rock fans that love
- 21 Five Finger Death Punch aren't Beyonce fans. We
- 22 don't look at it that way. They are important to
- 23 their genre and their style of music. And their
- 24 audience is on our platform so we don't process it
- 25 in that way.

- 1 Q. Okay, I take your point.
- 2 And if you look back at the document,
- 3 though, it says if the opportunity arises, Music
- 4 Choice would also love to support your artists with
- 5 exclusives. And then it thanks the album for
- 6 allowing Music Choice to premier the album. So it
- 7 thanks the artists for --
- 8 A. I'm sorry, can you tell me what page you
- 9 are on?
- 10 Q. Same page, just the next two sentences.
- 11 A. Okay.
- 12 Q. So in this instance Music Choice is
- 13 asking to band for promotion, not vice versa?
- 14 A. No, we're not asking them for any
- 15 specific promotion. This is just normal -- it is
- 16 the same thing as the record label saying, hey,
- 17 thank you. We're just being courteous.
- 18 We completed a promotion and we're just
- 19 saying to them, hey, we would love to work with you
- 20 and support you more. I don't characterize --
- Q. So the e-mails that you were talking
- 22 about with Mr. Fakler, you would differentiate those
- 23 on what grounds?
- A. The e-mails that I just -- that -- you
- 25 have to explain your question to me.

- 1 O. Yeah, sure. So you are saying that this
- 2 is just, you know, courtesy, like this is common
- 3 practice in the industry?
- 4 A. Yeah, as the same thing I said about Mr.
- 5 Fakler's e-mails, he asked me were they, were people
- 6 sincere when they said it, yeah, it is just a matter
- 7 of practice of doing business.
- 8 Q. Right. Okay. So let's turn to a
- 9 different, slightly different topic.
- 10 If you could turn to page 17 of your
- 11 written direct testimony, please. Just a quick
- 12 question that I have. You don't have to even look
- 13 at your testimony.
- 14 A. Okay.
- 15 Q. You mention there that Music Choice has a
- 16 video on-demand service and then that's another part
- 17 of its promotional value add. Correct?
- 18 A. Yes.
- 19 Q. And Stingray also offers a video
- 20 on-demand service, correct?
- 21 A. Yes, they do.
- Q. Okay. And then can you turn to the next
- 23 page, please. You say that you know that playing
- 24 music on Music Choice residential service drives
- 25 record sales. Do you see that?

- 1 A. Yes.
- Q. Okay, great. Do you provide any data to
- 3 support that assertion in your testimony?
- A. We actually used to do studies years ago.
- 5 Q. But in your testimony --
- A. Definitely linked -- in my testimony,
- 7 there is actually an exhibit in the Chris Brown
- 8 exhibit that talks about how RCA Records gave us an
- 9 iTunes link and the results of that promotion. And
- 10 it will show you that records were sold.
- 11 Q. That's for Chris Brown?
- 12 A. Well, the question you asked me was did
- 13 our service drive sales.
- 14 O. Yeah.
- 15 A. So I am just pointing to that as an
- 16 exhibit to my testimony that there is example of
- 17 where we drove sales from a promotion.
- 18 Q. Okay. And Music Choice tends to start
- 19 playing songs or albums roughly at the same time
- 20 they are released into the market, maybe a few weeks
- 21 delayed but roughly?
- 22 A. We play songs faster than the market, the
- 23 complete opposite.
- 24 Q. Okay.
- 25 A. When a song is released, the record label

- 1 releases a song out to the marketplace, not every
- 2 outlet immediately makes that song available.
- Q. I misspoke. I meant to say that you
- 4 start to play an album roughly after it is released?
- 5 A. Yes.
- Q. And as a general matter, sales go up
- 7 after a release?
- 8 A. I think historically more air play lends
- 9 to more sales or more streams of music. So when you
- 10 look at the most artists that are selling the most
- 11 records or the artists that are streaming the most
- 12 music in those metrics today are really combined,
- 13 those are the artists that are achieving the most
- 14 air play, so yes.
- 15 Q. Okay. And you haven't made an effort,
- 16 though, to quantify how much of the increase in
- 17 sales is attributable to Music Choice as a general
- 18 matter?
- 19 A. Well, as I was saying earlier, we have
- 20 done studies in the past that have correlated Music
- 21 Choice air play to the sales of recorded music. We
- 22 don't do those kind of studies at this time.
- 23 Q. Okay. Okay. And can you please turn to
- 24 page 21 of your testimony. This is also a quick
- 25 question.

- 1 You have got a section there talking
- 2 about how record companies service Music Choice. Do
- 3 you see that?
- 4 A. Yes.
- 5 Q. And specifically you say that record
- 6 labels provide free copies of the recordings to
- 7 Music Choice, correct?
- 8 A. Yes.
- 9 Q. And that just means that they give you a
- 10 password to a website and you can go there and
- 11 download the music, correct?
- 12 A. Well, they have multiple tactics.
- O. And that's one of them?
- 14 A. That's one of many.
- Q. Okay. And that doesn't cost anything to
- 16 provide that link to Music Choice?
- 17 A. No, it doesn't.
- 18 Q. Okay. And you also say that record
- 19 labels proactively call Music Choice weekly to
- 20 promote their artists, correct?
- 21 A. Correct.
- Q. Okay. And how long do they typically
- 23 spend on the phone with you each week?
- 24 A. As an aggregate --
- Q. I am talking about like let's say one

- 1 artist label or one label, how much time does the
- 2 label --
- 3 A. Well, in my experience, a record label
- 4 would call me, a typical record call could last
- 5 anywhere from 30 minutes to up to an hour, depending
- 6 on what we're covering because we can cover a lot of
- 7 ground. Typically a record label rep has more than
- 8 one song.
- 9 Q. Right.
- 10 A. So in that conversation, you can be
- 11 talking about four or five songs.
- 12 Q. Right. But their whole job is to promote
- 13 the music of the label that they represent, correct?
- 14 A. Yes, it is.
- 15 Q. So that leaves a lot of time to call
- 16 other music outlets?
- 17 A. Sure.
- Q. Okay. And you have no reason to believe
- 19 that labels lobby Music Choice more than terrestrial
- 20 radio stations?
- 21 A. I don't have any evidence of that, no.
- 22 Q. Okay. Do you think Music Choice is more
- 23 promotional than Sirius XM?
- A. Can you clarify like what do you mean by
- 25 more promotional?

- 1 O. Yeah, sure. So you know earlier we were
- 2 talking about whether you had made an effort to
- 3 quantify how much increase in sales was attributable
- 4 to Music Choice.
- 5 A. Um-hum.
- Q. To the extent that you think that Music
- 7 Choice does drive sales. And I am asking do you
- 8 think that Sirius XM drives sales more than Music
- 9 Choice?
- 10 A. I don't think you can really try to
- 11 measure Sirius XM and Music Choice. I think it is
- 12 everything that we have talked about in this hearing
- 13 and in my testimony today that there is an
- 14 ecosystem. There is a music industry, and there is
- 15 an ecosystem across a lot of different media,
- 16 platforms.
- 17 And the way you can measure things is
- 18 when you do very specific promotional programs that
- 19 can be monitored and measured and you can put some
- 20 metrics against it. But I can't, you know, really
- 21 give you an answer to say something is
- 22 substitutional or something is better than the
- 23 other --
- 24 Q. Okay.
- 25 A. -- in that way.

1	Q. Got it. I want to talk a little bit
2	about Music Choice as a vehicle for the discovery of
3	new music.
4	A. Okay.
5	Q. And if you could turn to page 30 of your
6	written direct testimony, please. Oh, actually,
7	Your Honors, I apologize. I realize that this next
8	section is restricted, if we could close the
9	courtroom.
10	JUDGE BARNETT: We will have a brief
11	closed session.
12	(Whereupon, the trial proceeded in
13	confidential session.)
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1	CERTIFICATE
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3	I certify that the foregoing is a true and
4	accurate transcript, to the best of my skill and
5	ability, from my stenographic notes of this
6	proceeding.
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8	
9	5/18/17 Ja Bujntes
10	Date Signature of the Court Reporter
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